Mortgage Banker

in this issue


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HIGGINS LAMINATED HARDWOOD BLOCK FLOOR photographed in actual use at million-dollar Round Lake High School, Round Lake, Illinois. Gerald A. Barry and Fred D. Kay, Chicago, Architects; Tonyan Construction Company, Mc Henry, Illinois, General Contractor; Chain-O-Lakes Floor Contractors, Long Lake, Illinois, Subcontractors.

DARK TONE Higgins Blocks are an exciting new note in interiors. Here they are shown used in combination with the natural blocks in a checkerboard pattern. (Higgins Block is also available unfinished for those who want the "custom" look of on-the-job finishing.)

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MBA 1957 Calendar

July 28-August 3, School of Mortgage Banking, Course I, Stanford University, Stanford, California

August 4-10, School of Mortgage Banking, Course II, Stanford University, Stanford, California

September 23-26, Electronic and Tabulating Equipment Servicing Clinic, Hotel Commodore, New York

November 4-7, 44th Annual Convention, Statler Hilton Hotel, Dallas

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>> AVAILABLE: These MBA Certificate of Merit award works are available without charge to members of the Association. Indicate those desired and copies will be sent.

Project Construction Financing by George Robert Monroe, Secretary, Monarch Investment Co., Wichita.

The Mortgage Banker of Yesterday and Today by G. J. Hoffmann, Jr., Treasurer, Stockton, Whatley, Davin & Company, Jacksonville, Florida.

The Motel Story by Jerry B. Frey, Jr., The Brown-Frey Mortgage Company, Dallas.

Simplified Mortgage Service Accounting Procedures by John K. Benoit, Equitable Life Insurance Company of Iowa.

Subdivision Development and Financing by J. Wray Murray, Commonwealth Life Insurance Co., Louisville.

Direct Placement of Industrial Securities by Mortgage Bankers by Walter Mahlstedt, Teachers Insurance and Annuity Association of America.

Mortgage Loan Analysis of Retail Properties by Robert P. Russell, Realty Mortgage Co., Inc., Houston.

Auditing the Loan Correspondent by D. R. Olson, Equitable Life Insurance Company of Iowa, Des Moines.

The Mortgage Banker

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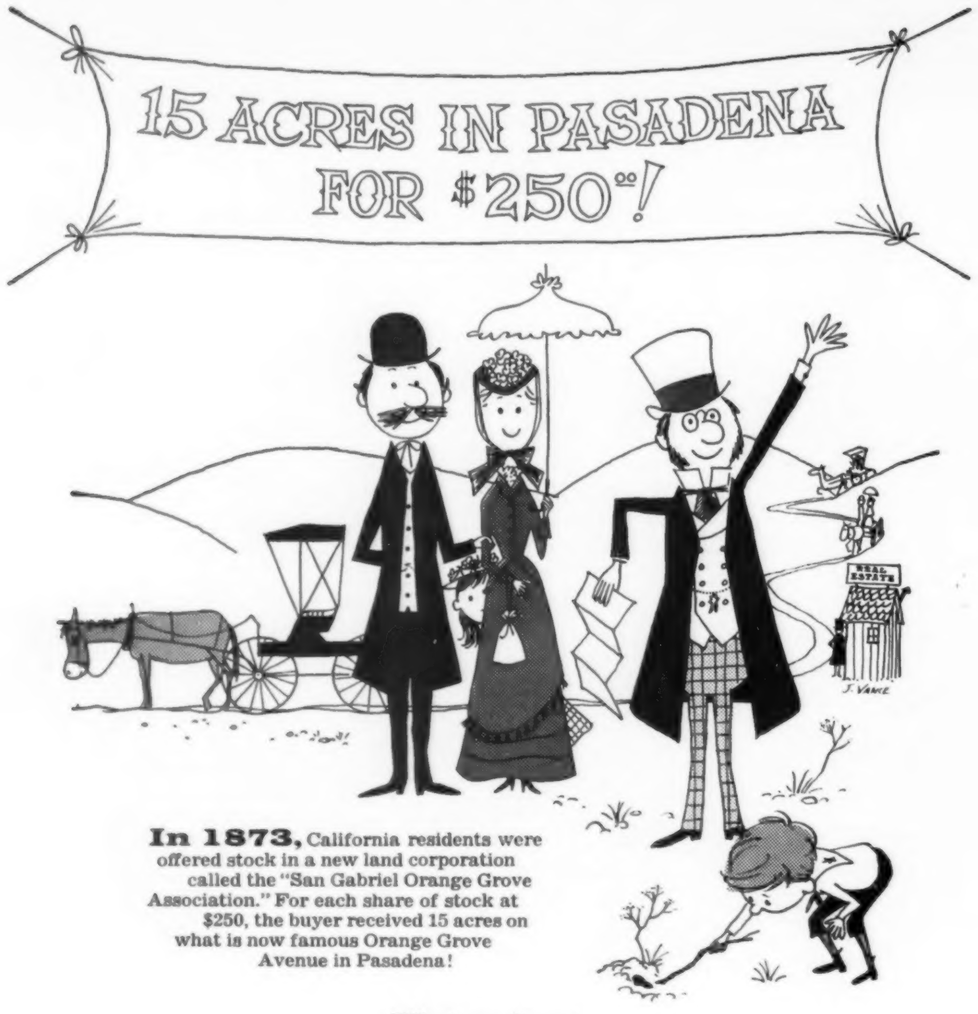

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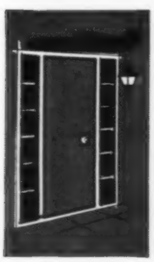

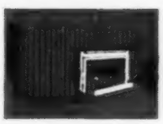

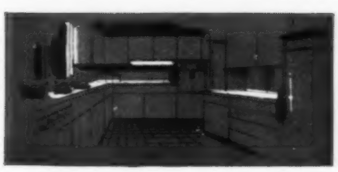

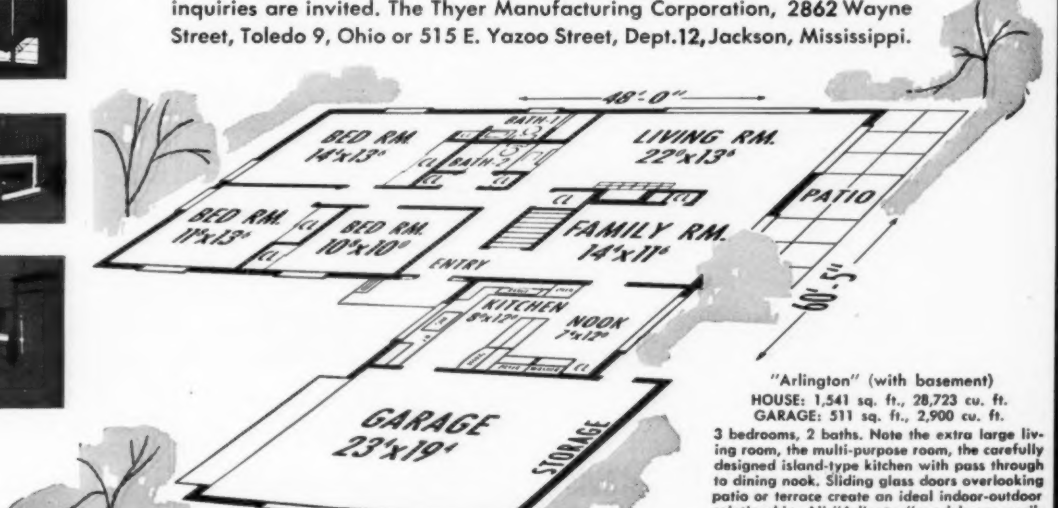

"Arlington" (with basement)
HOUSE: 1,541 sq. ft., 28,723 cu. ft.
GARAGE: 511 sq. ft., 2,900 cu. ft.

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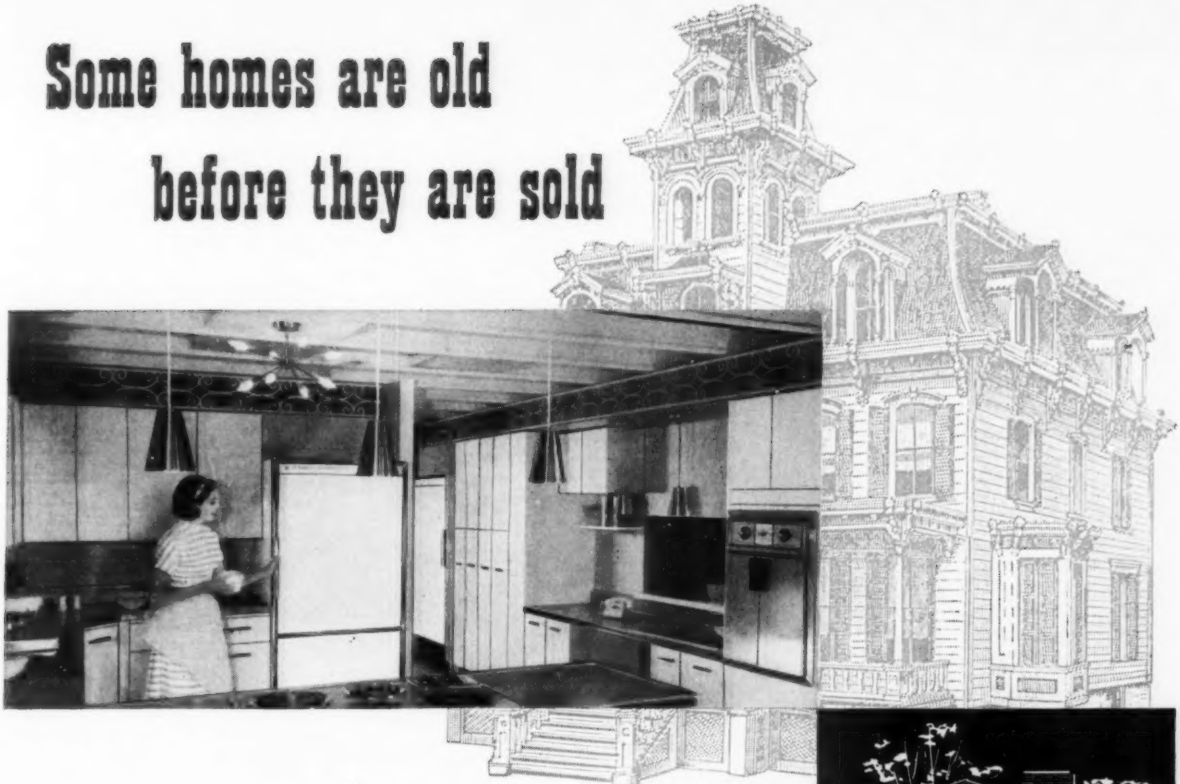

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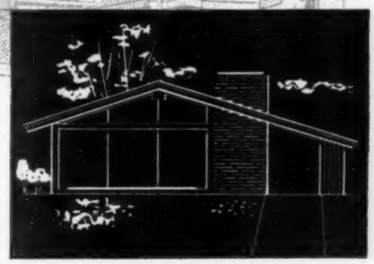

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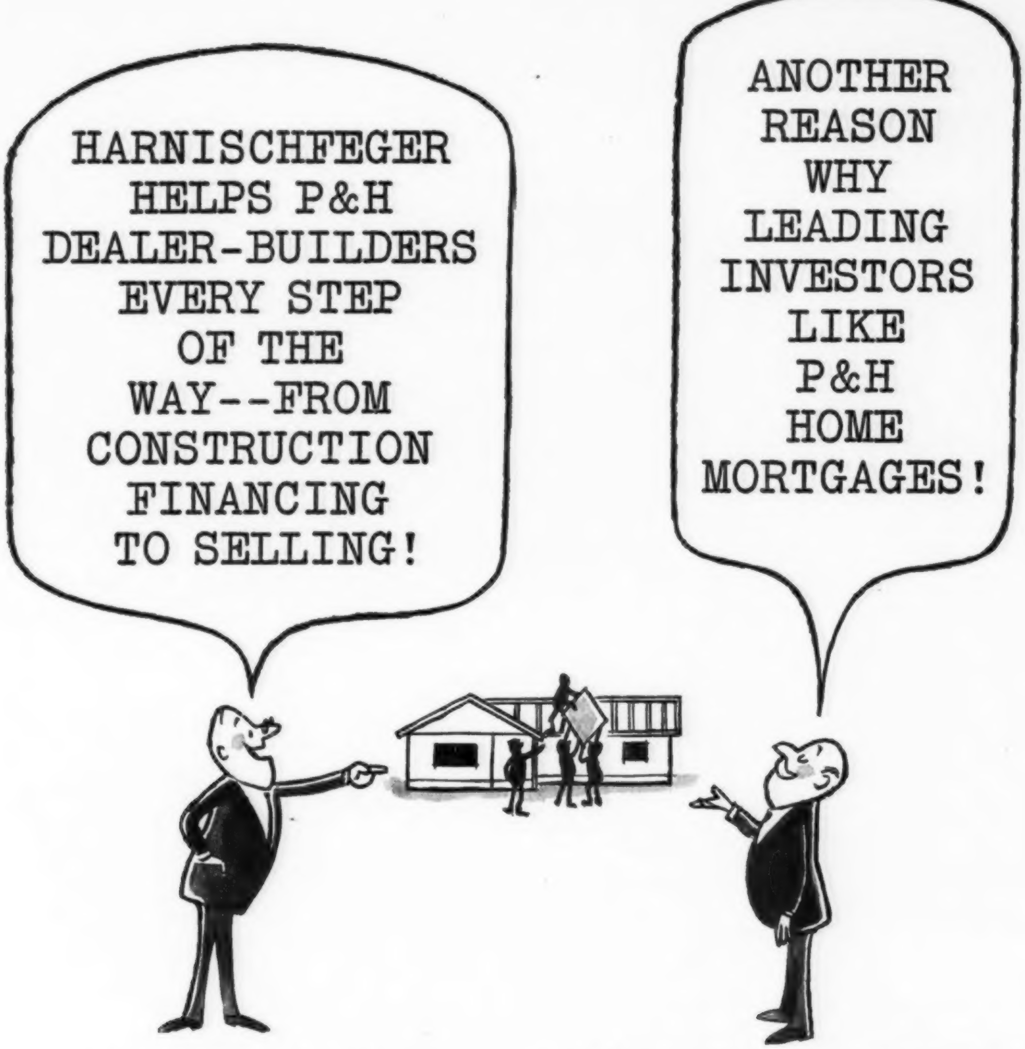

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Why the Dynamic '50s Mean the Dynamic '60s Are Ahead

By **LIONEL D. EDIE**

Chairman, Lionel D. Edie & Company, New York

SINCE the end of the war, more than 40 million children have been born in this country. During the next five years, roughly 20 to 22 million more children will be born. In the entire period from the end of the war, more than 62 million will have been born. Two million have died. As a net figure, more than 60 million people will have been added by new births in this 16-year period. And not one of them will have reached normal working age by the end of the next five years. They will still be at the school age. They will not be entering into the labor supply of the country. They will be consumers but not producers during the next five years.

Who then accounts for U. S. production? The newcomers in the labor force are primarily the children who were born in the decade of the '30s, the decade which saw a sharp slump in the birth rate. The survivors of that age group are today those who are coming for the first time into the labor supply of this country. The number of such new entrants in the labor supply is running far *below* normal, far below that historic balance between people of working age and people too old or too young to be of working age.

The deficiency of people entering the working age group has been 11 million in the last eight years and it will be approximately an additional 4 million in the next five years, so that we have a deficiency, 1949-62, in the supply of people of working age of about 15 million.

And with this deficiency in the number of people of working age, we must provide an American standard of living to the 60 million people born between roughly 1946 and 1962.

The shortage on the labor side has to be met by trying to find a substitute for labor. That substitute is machinery and the power to run the machinery. With a shortage on the labor side, and a tremendous expansion on the part of the consumer side, the utmost pressure is placed on American industry to carry forward capital expenditures, particularly that form of capital expenditures which provides a substitute for labor, which provides a greater output per man-hour for the labor that is available and which helps to cut the unit cost of production for the benefit of everybody.

That is the first dynamic pressure.

The second pressure is in the field of power. People are not working harder. They are not going to be working harder, but they are going to have more power at their disposal. The generating capacity of the electric light and power industry during the next five years will increase at an average of about 8 per cent a year. That is a fairly high rate of increase. Probably few, if any, leaders in the utilities business would be inclined to quarrel with it as a reliable figure, but some skeptics might say, "Well, maybe so, but how do you know?"

My associates and I have made a comprehensive survey of the capital expenditures plans of the electric light and power companies over the next five years. We have had a very broad response from companies representing about 90 per cent of the total industry. We have the estimated capital expenditures for each year for the next five years.

We have carefully studied these results and after doing so I feel that my estimate of about an 8 per cent per annum increase in generating capacity is going to be wrong because it is going to be too low.

In order to get from power to an efficient use of power, it is necessary in the American business system to do a certain amount of scientific research and developmental work.

This year the research and development expenditure of American industry is estimated to run in the neighborhood of $7 billion. In 1962, I would expect it to run well over $10 billion.

The decade of the '50s is drawing to a close and the period has indeed been a dynamic era of the 20th Century, as Dr. Edie proclaims. But, as seems to be traditional for Americans, the future is always more intriguing than the present; so what exactly is ahead, what about the '60s into which we will soon be moving? Dr. Edie is an economist dealing with facts. The facts, as he sees them, clearly indicate that another dynamic period of development is ahead for this country; and he cites here, he did for the National Industrial Conference Board, the four basic reasons for his forecast.

Lionel D. Edie

I expect roughly an 8 to 10 per cent per annum increase in research and development.

The research and development is for two main purposes, to find new products and to find new processes in American production.

As a result of this research the new products coming into the market from American industry will increase steadily. The other benefits from the research will be in processes of production and distribution which help to cut unit costs and provide today's greatest resource in the battle to retard wage inflation.

Research, power and people are the three great dynamic pressures, and they are the three reasons why I speak of the potential of American industry as a probability rather than merely as a vague theoretical possibility.

Total population is a measure of the total consumers. The population of the next five years will increase 1.7 per cent a year, and that population will be given an increase in the standard of living per capita of between 1½ and 2½ per cent a year, a development that is not at all surprising but is in compliance with the tradition of the American way of life.

And in the same five years the price index will advance some, probably in the neighborhood of 1½ per cent a year. So here, in physical terms, is an increase of roughly 4 per cent a year and in terms of current dollars, an increase of roughly 5½ per cent a year. That is looking at it from the consumer side.

Now look at it from the investment and producer side. From the investment side we have two broad groups to consider. First is the government, through the purchase of goods and services; second is private investment in the form of construction, capital expenditures, residential building, and so forth.

If we can arrive at a satisfactory estimate of government and private investments, we can fairly easily move from that to an estimate of the gross national product.

The government investment is first: state and local where schools, road building and the general community improvements necessary to take care

of a suburban population call for a continued rate of expansion over the next five years. The rate of expansion in physical terms, allowing nothing for price increase, would be at the average annual rate of about 4 per cent.

However, in terms of the Federal Government, we find some difficulty because we are now in the midst of a great hassle over the budget. It is best to assume that the spending on national defense and the other spending by the Federal Government will average over the next five years about the same as it has this year. I see no progressive continuing increase in the rate of expenditure by the Federal Government.

One of the big items in private investment is residential building, which is currently in an air-pocket, but I think not for too long. It seems to me that during the next five years we are likely to experience a very important upward wave again in housing starts and residential building. There are many devices for trying to estimate housing, but I think one of the simplest and best is to work in terms of the marriage rate in the United States.

Right after the war we had a very high marriage rate for a year or two. There were more than two million marriages a year. More recently, that has slumped down to 1½ million a year. It is not going to stay there. In fact, it is already on the upgrade again, and by the end of another five years the marriage rate, instead of being somewhere around 1.5 million, will be in the neighborhood of 1.8 million to 1.9 million. And beyond that, ten years from now, the marriage rate will be above two million again.

I do not believe that we can be in a rising marriage trend without having a demand for houses. We cannot eventually take care of two million marriages a year with one million houses. This housing situation has got to turn around and move forward again in the next five years.

Now, having worked on private investment and on government purchases of goods and services, my operating procedure is to correlate the combined total of those two estimates with consumer expenditures and gross national product.

The result is gross national product, and my figures for the next five years will not have too much meaning unless I compare them with what actually has been happening during the past seven years. I have referred to this decade as the "Dynamic '50s." We have actually had seven years of the Dynamic '50s. We are in the eighth year, and I am talking about a projection on through to 1962.

In the Dynamic '50s, thus far, the gross national product in physical terms, in constant dollars, has increased on the average 5½ per cent a year. It will not increase that rapidly during the next five years. It will increase in physical terms at the rate of about 4 per cent a year.

In terms of current prices, the Dynamic '50s thus far have seen an increase in gross national product at the

annual rate of about 8 per cent. In the next five years, the increase will be about 5½ per cent. It will be a slower rate of increase.

Now, one might say, "Doesn't this indicate that the economy is slowing down? That we are leveling off? That we are losing momentum?" No, I do not think that is indicated, and the reason can be stated very easily. There was some extra whipped cream on the cake during the last seven years because of the necessity to increase the defense spending by the Federal Government. The increase in defense spending amounted to about \$20 billion.

When you translate defense spending into gross national product, you have to apply to it a multiplier of roughly two. In other words, a jump of \$20 billion in defense is likely to mean a jump of about \$40 billion in gross national product. Over the next five years, I do not see any repetition of that jump of \$20 billion in defense. I assume the defense spending will stay about the same as it is now during the next five years. Well, if we do not get the jump of \$20 billion defense, then we do not get the jump of \$40 billion in gross national product, and the difference between the average annual rate of growth of the last seven years and the next five years is almost entirely this difference between the jump in the defense spending of the past and the constant assumed defense spending in the next five years. Except for that I see no sign of leveling off, loss of momentum, slowing down in the dynamic pressures on American industry.

Another phase of the dynamic consequence has to do with the subject of unemployment. The question to which I have addressed myself is, "How much unemployment will there be in 1962 if this American potential works out as indicated?"

The amount of unemployment in 1962 would be between 5 per cent and 7 per cent. Now there are certain inferences that spring from that. If you think I have been too high in my projection of gross national product, then you had better get ready for unemployment of more than 5 per cent to 7 per cent in 1962.

As a matter of fact, whatever you may think of tight money, budget, tax reduction or anything else, both

the Federal Government and the Federal Reserve are fully dedicated to continuous growth as an objective of the American economy. They are pledged to the use of all their resources to that end, and from the nature of the men involved, I would have no doubt they would have the courage and the imagination to live up to that pledge.

At the moment, they are trying to retard inflation. They are trying to hold certain things in check. Bear in mind that in the long history of American business cycles, the thing that killed us so often was a crisis. It was a crisis in the stock market, a crisis in real estate, a crisis in commodity prices—always a crisis. Now the Government and the Federal Reserve are using all their talents as best they can to prevent a crisis.

It seems to me that they have a very good chance of being successful in preventing a crisis. I am assuming that they will be successful to a reasonable degree. In taking this position, I do not subscribe to the view that recession and depression have been abolished forever. In fact, I entertain the possibility that the economy may be somewhat more susceptible to fluctuations in the future than in the recent past.

Too often we talk about these things from a purely domestic standpoint, the outlook for business, the outlook for American business. We are part of the rest of the world and in particular we are part of the free world and we are an extremely important part. We have leadership and we have responsibility in the free world.

A course of growth and expansion of the kind I have indicated would mean that the United States would be living up to the responsibilities of that leadership. Anything significantly less than the five-year projection that I have given here would mean that the free world would be falling behind in the Cold War and in the "competitive co-existence" of the world today.

Highways and Byways

Second Biggest Rise U. S. Debt Was in 1956

Though showing a little more restraint than the year before, the American people went about $16½ billion deeper into debt in 1956 in their borrowing to buy homes, cars, and other goods and services.

This is the second largest annual rise of its kind on record, and brought the total of personal indebtedness to a new high of more than $165 billion at the year-end. The latest total is more than twice what it was in 1950 and nearly five times the comparable amount at the end of World War II in 1945, a rate of growth substantially greater than that of the economy in the period.

On the other side of the personal ledger, the people's long-term accumulated savings in life insurance, savings deposits, savings and loan institutions, and U. S. Savings Bonds increased by nearly $14 billion last year to bring the total to above $246 billion at the end of 1956. The figures thus show that individuals added $1.20 to their personal indebtedness in 1956 for every dollar of increase in their accumulated long-term savings during the year.

The people of course have other financial resources in ownership of securities, holdings of currency, and increasing equity in homes resulting from the steadily growing total of amortization. Many millions of persons, too, are protected by private and public pension and retirement programs. Nonetheless, the debt trend and the lag in savings are disturbing in view of the growth of inflationary pressures in the economy.

The debt-savings relationship last year made a better showing than in 1955, when personal debt rose by $20 billion during the year and long-term accumulated savings by less than $13 billion. This represented an addition of $1.59 in debt for every dollar of increase in accumulated savings for the year. In 1954, by contrast, accumulated savings increased more than personal debt during the year.

The American people came out of

World War II in an extraordinarily liquid position, owing only 25 cents in personal debt for every dollar of their accumulated savings at the time. As a result of the trend since then, aggregate personal indebtedness now figures out to around 67 cents for every dollar of accumulated savings, above what it was in 1940.

Personal indebtedness is dominated by mortgages on one-to-four family nonfarm homes, which came to just under $100 billion at the end of 1956 and rose by around $11 billion during the year. Consumer credit, three-fourths of which is installment debt, increased by $3 billion in 1956 to total $41.9 billion at the year-end. Farm mortgage and non-mortgage debt (including Commodity Credit Corporation loans) came to an estimated $20.7 billion at the 1956 year-end, up nearly $2 billion, and life insurance policy loans rose $200 million to a total of $3½ billion.

Nearly 500 Urban Plans Are Underway

There are 491 projects actively under way in the nation involving federal assistance for slum clearance, housing rehabilitation, relocation of displaced families, or redevelopment, NAREB reports.

Of the 93 urban renewal programs approved by Urban Renewal Administration during 1956, 73 of them called for a substantial amount of neighborhood conservation and urban renewal. Up to the end of 1955, only nine of the 340 urban renewal programs then approved called for a substantial amount of rehabilitation of residential areas.

These figures apply only to projects calling for some form of government assistance—either loans, grants, planning assistance, mortgage insurance, or combinations of them. They do not include urban renewal projects under way in scores of American cities based solely on local financing and firm housing code enforcement with no form of federal aid.

Of the 491 projects under way, URA reported that 433 projects calling for loans and grants, and some rehabilitation, had been activated as of last December 31.

In addition to the 433, there also currently are 12 projects providing for

FHA mortgage insurance up to $20,000 (Section 220 financing) on new or existing homes in urban renewal areas, but not calling for any federal loans or grants.

Another 46 areas have been approved for FHA mortgage insurance up to $9,000 (Section 221 financing) for new or existing homes for relocation of families displaced because of housing code enforcement or some other form of government activity.

A total of 31 cities have been declared eligible for federal mortgage insurance up to $20,000 (Section 220) for new or existing homes in 44 urban renewal projects, including projects receiving loans or grants. Most of those projects were approved prior to 1956. Most of the 73 approved last year were authorized to go ahead with planning programs and are expected to be declared eligible for mortgage insurance financing this year.

A total of 68 cities have been declared eligible for federal mortgage insurance up to $9,000 (Section 221) for 33,041 new or existing homes for displaced families. A substantial portion of this activity occurred this year. This total includes cities receiving and those not receiving some other form of government assistance.

Understanding Heart in Mortgage Lending

Veterans who owned 69 homes, completely demolished in the tornado which hit the Kansas City suburbs recently, will each save an estimated $1,200 because of action taken by the Bowery Savings Bank. This action will also aid most of the 49 other ex-GI's who owned partially damaged Bowery-financed homes in the same area.

The Bowery holds VA mortgages on 448 homes, totaling $5,500,000, in Ruskin Heights, 12 miles south of Kansas City. Two other New York City savings banks, Seaman's, and the Dollar, helped finance construction of the project in 1952, 1953 and 1954. This was made possible by a revision of the State law permitting savings banks to make FHA and VA mortgages outside the State.

All were insured against tornado damage to the full extent of the original mortgages. After the disaster, the Bowery could have taken the insurance payments to satisfy the mortgages on each home that was razed. Should the owner then borrow on a new mortgage, he would have to pay the current interest rate, which is higher than was charged in 1952-54, when these houses were built. He would also incur new closing fees.

Trustees of the Bowery approved cooperation in the restoration program, in a way that will save money for the home owners affected. The lower interest rate will be continued for the full 30-year amortization period. The Bowery also volunteered to defer amortization payments of approximately $20 a month for one year—to the which the VA agreed.

In a letter from the regional VA office in Kansas City, Wiley C. Crawford, loan guaranty officer, said: "Your co-operation and solicitude in this terrible disaster is appreciated by this office, and I know commands the respect of all concerned."

"Such guaranteed VA mortgages as these are made," according to Earl B. Schwulst, Bowery president, "when the Bowery, because of its large loan volume, has to go outside the New York metropolitan area to place part of its mortgage money profitably—for the benefit of our depositors. When disaster strikes, the Bowery tries to lean over backward in helping each mortgagor reconstruct his family home at the least possible cost."

The reconstruction program was organized by the Kansas City Mortgage Co., mortgage servicing agent for the banks, headed by John M. Popkess. Under the plan, the 11 insurance companies that held policies on properties destroyed or damaged by the tornado have hired three builders to reconstruct the project. Included is the builder that originally built the development.

The municipalities have agreed to defer payment of real estate taxes. The State and Federal Governments have cleared the streets.

Some 100 homeowners have agreed to having their homes restored. Two chose to take cash for the equities they had built up. The restoration program is voluntary.

The Bowery's original investment in the project was $6,000,000 in 448 30-year, full value VA loans. This had been reduced to about $5,500,000. The loans were made on three models of homes priced at purchase at $10,000 to $14,250.

Of the total, 69 homes valued at $820,000 were demolished and 49 homes were partially destroyed. Damage on the latter properties range from $150 to $8,000, and totaled $165,000.

Some Increase in Loan Funds for Business Property at Half to a Point Over Year Ago

Business property mortgage borrowers with the "highest caliber credit," willing and able to pay interest charges half to a full point over those of a year ago, are finding a modest increase in the supply of loan funds available, NAREB reports.

Mortgage borrowers offering lesser security of this type, however, continue to face a tight money supply situation with investors "confining loans to 40 or 50 per cent of cost if they are willing to negotiate them at all."

Oliver M. Walker, Washington, D. C., chairman of NAREB's Mortgage Study Committee, issued this summary of the business property loan situation.

Among the other major findings:

» Borrowers offering as security commercial buildings in prime locations with national credit leases, "despite their favorable competitive position are paying interest rates of 5 to 5½ per cent in the current market." The most frequent charge a year ago was from 4½ to 4¾ or 5 per cent—a level a quarter to three-quarters of a point higher than the 1955 rate.

» New modern-design industrial and warehouse properties, well located and with assured rentals, are attracting investment capital in the current market to about the same degree as they were six months ago. Older, less desirable structures, with one or more underwriting weaknesses, are increasingly difficult to finance and more costly where loans are negotiated.

» Interest rates on industrial mortgages (where the building is leased to a national credit rating tenant) are most frequently 5½ per cent with an appreciable number reported at a higher rate. This current finding reflects a substantial increase in interest rates for mortgages on this type of property over the last report.

Mortgage money is now "slightly easier" for commercial property under local lease and in a prime location. In March, loan availability was "tight" in 42 per cent of the communities and "moderate" in 52 per cent.

"The difficult market faced by businessmen seeking loans on owner-occupied buildings—even in prime locations—has continued," the survey finds. The current supply of mortgage money for these loans was described as "tight" for 45 per cent of the communities, compared to 36 per cent so classified last year. Interest rates are now 5½ or 6 per cent on such property.

The most adversely affected sector of the commercial property mortgage market has been owner-occupied or locally-leased property in secondary locations. Mortgages on such properties have been difficult to place, and interest rates have risen appreciably.

Case for the Motel Versus the Hotel

While the high profits to be made in the operation of well located, built, and operated motels may "breed ruinous competition," such establishments probably will continue to yield quick and attractive returns for the near future.

This was the contention of Wallace W. True, co-manager of the appraisal department and vice president of William A. White and Sons, New York, before the American Institute of Real Estate Appraisers.

"When a property can be so built and financed that it can be paid off out of profits in five years or less, such a field is a very tempting one to the entrepeneur. It has been done repeatedly in the motel field and in well-located properties under good management."

Another significant trend cited is the increasing number of motel units in a single property. "Today, motels with 200 rooms and upwards are by no means exceptional properties," he said.

Jumping from a total of 14,000 establishments in 1940 to 56,000 by the end of 1956, motels are growing far more rapidly in number than hotels. Moreover, he said, they are gaining in the esteem and favor of the traveling public with the result that the line of demarcation between the hotel and the motel is rapidly disappearing in the public mind.

In line with their new popularity, and partially responsible for it, is the tendency of modern motels to become a more complete type of operation with the addition of recreational and dining facilities. This has been a factor in the gradual identification of the better type of suburban motel with the social life of the community in which it is located. A few of them have become the outstanding meeting

place of the area and are hosts to service club meetings.

Another element in the rapid rise of motels in public favor has been the informality of its environment compared with the average metropolitan hotel, he said. He based this statement on a survey made by the American Hotel Association which concluded that 62 per cent of the men and 72 per cent of the women not familiar with hotels tend to be "awed" by hotel atmosphere and attendants.

Among the other considerations that have figured in the rise of motels from 1920 tourist cabins to a position of rivalry with established hotels, the speaker listed the following:

» A "revolution" in American travel habits in the last 25 years with a constant decline in the use of rail travel and a resulting gain in the use of the automobile. This has been stimulated by road construction and will continue to be augmented because of the vast new system of through ways which will increase the "predictability" of travel routes and point to future motel locations.

» A growth in the number and length of paid vacations—winter and summer—with the result that vacation automobile travel has been greatly increased. It is estimated that 58 million vacationists took to the roads in 1956 for an average trip of more than 1,000 miles.

» The recent trend toward the decentralization of industry which has located plants and factories on the outskirts of cities. The result of this has been that business visitors to these plants have found the downtown hotel increasingly inconvenient and have turned to outlying motels for accommodations.

» Increasing motel patronage on the part of business travellers generally as shown by the estimate that 50 per cent of them now prefer to stay at motels while "on the road." This is at least partially explained by the ease of access to selected over-night baggage from cars, and the freedom to depart as early as desired because of pre-payment for quarters.

» The fact that "today we find in many motels features finer and better than those that can be offered by any downtown hotels, except those of the luxury type" and the belief that "the hotel industry has not kept pace with the growth of the country and the demand for hotel facilities."

Mr. True declared that "during all of the post-war period and down to the present time, the total number of hotels has increased only about 4 per cent, despite boom areas such as Florida, and one or two other locations.

Turning to an appraisal of the motel business itself, Mr. True said that of all the considerations that will determine the success or failure of a given enterprise, location is the most important.

He warned that it would be a mis-

(Continued on page 38)

The Growing Influence of Life Insurance on the U. S. Economy

Everyone in any way connected with the investment of capital is aware of the greatly increased importance of the life companies as investors. Here a specialist in labor economics and industrial relations takes a look at the industry today and makes some projections for the future—the latter adding up to a forecast for continued growth.

I SEE seven fundamental long-run economic trends affecting life insurance: *first,* the widely publicized growth of this country's population; *second,* the growth of family formation; *third,* the increase in average life expectancy; *fourth,* the seemingly inexorable march of inflation; *fifth,* the age distribution or age profile of our population; *sixth,* the passing into history of the three generation family farm; and, *seventh,* the expanding security-consciousness of the American people.

In 1790, when the first decennial census in our nation's history was taken, the young Republic's population numbered slightly less than four million. The seventeenth census, taken in 1950, revealed a dramatic growth to 150,697,361. And this growth is continuing! On March 1, 1957, our total population, including Armed Forces overseas, numbered 170,270,000.

To life insurance people, as to all others who provide services and goods for these increasing millions of Americans, the statistics spell opportunity and challenge. And the horizon beckons, if the Census Bureau's estimates of our future population are accurate. The Bureau has forecast a July, 1975 population somewhere between 207 million and 228.5 million for the United States. Assuming the continuance of prosperous conditions, this is an unsurpassed market for almost everything from yo-yos to life insurance. These numbers also mean continuing expansion of our labor force. There are and will be problems—serious ones. But the essential features of the picture are opportunity and challenge.

With respect to marital status, the Census Bureau pointed out that "During each decade since 1890, the proportion of single persons has declined. The long-range decrease has been due in part to gradually rising marriage rates and in part to an increasing proportion of the population in the older age groups where single persons are relatively few. Since 1940 the trend has been greatly accelerated . . ." This upsurge in family formation increases still further the potential demand for life insurance coverage, enlarging the already great opportunities facing the industry.

One of the surest indicators of the health and well-being of a nation's population is its average life expectancy. The enormous progress made by the people of the United States is reflected clearly in such data. In 1954, the average American's life expectancy at birth was about 70 years. In 1900, it had been 47.3 years. Equally important, at age 65, the 1954 expectation was another 14.4 years, or close to 80. These facts possess enormous significance with respect to retirement and the growth of annuity programs to enable us to spend our later years in tranquility and free from need.

Another fact, of vital significance to life insurance, is the differential in average life expectancy as between men and women. Since medical science overcame the most serious hazards of childbirth, women outlive men. As of 1954, the average female life expectancy for all races at birth was 72.9 years, while that for males was 65.8 years. Thus, on the basis of expectancy figures at birth, the average American woman can reckon on some six years of widowhood. Further, the gap between the average life expectancy of males and females at birth has widened significantly since 1900, when women outlived men, on the average, by only two years. I do not pretend to know how wide this gap may become, or, indeed, whether it may be reversed at some point. At this moment, however, it is certain that these statistics represent a tremendous challenge to those who work in the life insurance field. Few people contemplate death with equanimity. Yet the American man, who is a family head, must be made more than simply aware of the statistics. He must be brought to action.

Inflation is the insidious termite that eats away the substance of our life insurance and annuity programs, robbing them of their real worth as seen at the time of the establishment of such programs.

Inflation means that life insurance and annuity programs must be periodically reviewed in terms of real adequacy, and the review period had better not be too long. In this respect, those who sell and service life insurance policies have done a commendable job. Between 1930 and 1955, life insurance per family in the United States rose from $2,800 to $6,900, or 146 per cent. In the same period, the

By **A. L. GITLOW**
Associate Professor of Economics, School of Commerce, Accounts and Finance, New York University

cost of living rose by 60 per cent. Thus, real life insurance protection per family has increased. However, in the same span of years disposable personal income per family rose from $1,900 to $5,000, or 163 per cent. Thus, the job could be somewhat better. Further, in 1930 the average female life expectancy at birth was 3½ years greater than the male while in 1954 it was 6.1 years. Consequently, both the capacity to buy and the need for private life insurance protection have outpaced the growth of such life insurance protection per family in the period 1930-1955.

Although changes in the terminal dates used would alter the picture, I believe a basic challenge exists. Perhaps I, as an individual, am excessively insurance conscious, but I do not believe that the significant increase of recent years in group life insurance arrangements, growing out of collective bargaining and voluntary employer programs, offsets the desirability of more individually purchased private life insurance protection per family. Under many, though not all, group life insurance programs the worker's coverage terminates with his employment. Also, millions of workers are not covered by group policies. Old age and survivors insurance, while very important, strikes me as providing a protection base upon which private insurance should build in order to achieve a proper level and variety of coverage.

Another trend is the changing age distribution of our population.

The Bureau of the Census wrote, in a 1955 population report, "The population 65 years and over continued to show rapid gains, increasing by about 1.9 million between 1950 and 1955. There were about 14.1 million persons in this group on July 1, 1955. In comparison, there were 12.2 million in 1950 and about 9.0 million in 1940. The population 65 years and over has grown persistently and quite rapidly since at least 1870 when it was first classified separately in the census. At the beginning of this Century (1900) they numbered about three million. Since 1920, this age group has increased by about 35 per cent each decade, or approximately at an average rate of 3 per cent a year. The rate of increase in the proportion of the population age 65 and over has also been quite high. The 1955 proportion (8.6 per cent) is more than twice that of 1900. Thus, in 1955 about 1 in every 12 persons in the population was 65 years old or over, as compared with 1 in every 15 in 1940, and only 1 in every 25 at the beginning of this Century.

A mere review of numbers fails miserably to reveal fully the dimensions of the old age and retirement problem in the United States. There have been fundamental changes in our economy which vitally influence the old age and retirement picture. One change involves the importance of agriculture. Years ago, when our nation was primarily agricultural, elderly persons spent their last years on the family farm, with their children and grandchildren. While this was not necessarily an idyllic arrangement, it was generally effective. Within the limits of their strength, the older folks made constructive contributions to the farm. The farmhouse provided living space and food was easily available. In short, little money was required in retirement.

Today's picture is dramatically different. The overwhelming majority of our population is urban or suburban. The usual family unit is a two generation one—parents and children. Apartments and suburban homes are not noted for providing living space for a third generation. Elderly folks must usually find their own living quarters. This costs money, as does food and other necessaries—let alone some of the amenities of life. Briefly, annuity arrangements are enormously important today and may be expected to be even more so tomorrow.

All of the foregoing has demonstrated sketchily the potential demand for life insurance and annuity coverage. Our people require increasing amounts of these services. Of equal importance, however, is our population's recognition of these needs and willingness to pay for them. There are substantial signs that the American people have become more security-conscious. Social security programs and collective bargaining developments can lead one to such a conclusion. But public policy and group action are not a complete answer. I believe the life insurance industry must continue to be concerned with the individual holder of a life and annuity contract. Make the facts known to the individual American.

The gist of these observations implies great growth for the industry. To economists, such growth has a special significance. It means that insurance companies will continue to handle increasing amounts of the savings of the American people. And savings possess a critical economic significance. They are the dollars which buy more and better toolpower (capital), thereby expanding our nation's productive potential and our living standards. Thus, the life insur-

". . . insurance companies will continue to handle increasing amounts of the savings of the American people," said Mr. Gitlow in projecting his estimates for members of the Chartered Life Underwriters of America. "And savings possess a critical economic significance. They are the dollars which buy more and better toolpower (capital) thereby expanding our nation's productive potential and our living standards. Thus, the life insurance industry faces a further challenge in the manner in which it invests the savings which flow through its hands."

ance industry faces a further challenge in the manner in which it invests the savings which flow through its hands.

An analysis of the percentage distribution of life insurance company assets, during the period 1920-54, reveals these major features:

>> Life insurance funds have played an important role in financing the Federal Government's efforts toward prosperity and peace. From a post World War I (1920) point at which 11.3 per cent of life insurance company assets were in U. S. Government securities, the percentage declined to 1.9 per cent in 1930, rose to 19.3 per cent by 1940, further increased to 45.9 per cent in 1945, and had declined to 10.8 per cent by 1954. Barring a wartime military buildup or a depression, 10-12 per cent strikes me as a reasonable level at which to keep the proportion of life insurance company assets invested in securities of our Federal Government.

>> The percent of assets in all other government bonds has declined rather persistently in the 34-year period, from 7.1 and 6.1 per cent, respectively, in 1920 and 1930, to 3.6 per cent in 1954. As a local school board member, it seems to me that the life insurance companies might re-examine this trend and this proportion. They could make a considerable contribution to school construction needs in our nation, which are now desperate, by building up in some degree the proportion of their assets which are invested in local school bonds. These bonds have some very desirable features from the investor's standpoint. First, they are tax exempt securities; and, second, in properly run school districts, they are safe investments.

>> Except for the World War II period, when life insurance company assets were concentrated in U. S. Government securities, there is a persistent tendency for the proportion of life insurance company assets invested in the securities of business and industry to rise, from 27.7 per cent and 28.8 per cent in 1920 and 1930, respectively, to 44.3 per cent in 1954. I favor this trend. As the quantity of savings passing through the hands of life insurance companies increases, it is most important that a sizable proportion go into business and industry, thereby contributing to further capital formation. Remember! More and better capital increases productivity. It is the key to plenty.

>> Mortgages account for a large proportion of life insurance company assets. Yet, a long-term trend is not discernible. Between 1920 and 1930, the percent of assets invested in mortgages increased from 33.4 per cent to 40.2 per cent. This was a period of great construction activity. During the depression, a severe contraction was experienced with the percentage of assets in mortgages declining to 19.4 per cent. By 1945, as a consequence of World War II, the percentage further contracted to 14.8. Since then, building activity has been great and life insurance company assets invested in mortgages surged up to 30.8 per cent by 1954.

Assets of life insurance companies, which surpassed $90 billion by 1956, grew largely because of the savings element in life insurance. Guaranteeing a minimum rate of interest (about 2.5 per cent) to policyholders and beneficiaries leaving death benefits with the companies to earn a return, the life insurance firms must earn at least this much from their assets. Further, competition for business leads them to seek larger yields, so they can offer a higher rate than the guaranteed minimum. To the assets already accumulated must be added the large and continuous inflow of new savings and repayments on past loans (over $12 billion annually). Of these enormous sums, the life insurance companies hold relatively little in cash. Apart from immediate requirements for liquidity, the leading problem is to maximize income. But this must be done consistent with state laws and prudence.

These considerations explain the preferences for certain types of investments, as well as shifts over time in these preferences. They help explain why funds made available for expansion of industry are more likely to go to well-established firms than to struggling newcomers, who may be the trail blazers of the future. Further, the funds are more likely to be made available in debt (bonds) rather than in equity (stock) form. Consequently, life insurance company assets may not be employed where their productive value would be greatest. They go to what appears best among a limited range of "conservative" investment opportunities.

Apropos of Mr. Gitlow's long term projections for the life insurance industry, 1957 looks as though it will be another record year. In the first half, the buying of new life insurance has been nearly 30 per cent larger than a year ago and if the present pace continues, 1957 may see a total of $70,000,000,000 in purchases of new life insurance.

Purchases in the first six months were an estimated $33,000,000,000, about $8,000,000,000 more than a year ago. The greater part of the rise was accounted for by ordinary life insurance policies, the purchases of which were up some $5,000,000,000 in the half year.

As a result, life insurance outstanding in the country at midyear is estimated at $437,000,000,000, up $24,000,000,000 since January 1 and $45,000,000,000 more than twelve months ago.

Life insurance per family should pass the $8,000 level this year, which would be well over 100 per cent more than 10 years ago. The cost of living has risen some 25 per cent in these years.

The payment of benefits to policyholders and beneficiaries has grown proportionately, and in the first six months of 1957 are estimated to be approximately $3,325,000,000. This is $400,000,000 more than in the corresponding period of last year. This increase is totally accounted for by the greater ownership, as the death rate among policyholders is reported to be at or near last year's record low level.

As a by-product of the accumulation of reserves back of this growing total of insurance, the total assets of the 1,200 U. S. life companies rose to an estimated $98,300,000,000 at midyear. This was an increase of nearly $2,500,000,000 since January 1, representing approximately that amount of new capital made available from life insurance for the national economy. The new investments made by the life companies from these funds in the first six months of the year were about evenly divided between mortgages, corporate securities and all other investments.

Look Out—Better

WHEN business doesn't look good, it is easy to conclude that it is likely to stay bad or get worse. They say that misery loves company; and I sometimes think we may make ourselves more miserable than we need to be in order to have more company. There is no question that we have been through troublesome times. There's no question either that our problems are not all over. Nevertheless I feel sure that we can be confident of a better time ahead.

John C. Hall

The way I look at it is this: 1957 is a year of economic penance. It is a year in which we are paying the penalty for over-investment and under-saving last year and the year before and the year before that. No reminder is needed as to what we did in those years. The market was strong; money was easy; and when we couldn't get all the money we could use from the savings institutions we got it from the commercial banks in the form of warehousing credits, loans on accounts receivable, and other means. This was true not only in home financing. Similar activity was going on throughout the whole wide area of capital expansion.

We were using bank credit in a big way as a supplement for savings to finance our houses, our shops, and our factories. We were borrowing short and lending long. Whenever a country does that there is bound to be trouble ahead. Sooner or later an adjustment has to be made to bring the growth of capital expansion back into balance with the growth of real savings. It is exactly that kind of adjustment we are going through this year.

Thanks to alert and effective monetary policy, the adjustment has been made relatively painlessly. By putting a tight rein on the expansion of the money supply, the Federal Reserve authorities have been able to get the situation under control in time and to slow down the speed of the capital boom without actually contracting capital investment. This has been true everywhere in the economy with a single exception.

The exception is house-building. We have heard a lot of loose talk lately about the discriminatory effect of monetary policy on housing. Actually there has been no discriminatory effect, so far as monetary policy itself is concerned. The evidence of this is that in the area of home financing, where it was possible to roll with the punches with the shock absorber of a free interest rate, activity has remained at a high level. Conventional mortgage lending, in spite of the problems created by excess commitment in 1954 and 1955, remains pretty close to its peak level and is not likely to be reduced even in this present difficult year. In other words, here, as in other types of investment, activity has been slowed in pace but it has not been crippled.

With the part of activity that is dependent upon insured and guaranteed mortgage financing, the story is different. This part, which made up more than 50 per cent of the total in 1955, *has* been seriously crippled. But the crippling was due not to the desire or the action of the monetary authorities but to the effect of a rigid interest rate ceiling in an otherwise free money market. It is to the credit of the Federal Reserve officials that they alone in the government had the courage to point out the real problem and boldly to urge freeing the rate on FHA and VA mortgages.

Had their advice been followed, we in the home-building and home mortgage fields would not be in the plight we are today. As it is we face double the adjustment that has to be made elsewhere in the economy. Not only do we have to move slowly until the savings and investment situation is brought into better balance; but we have virtually to sit back until it comes into such balance that a still submarket rate of interest begins to be more widely attractive to investors.

Severe as these handicaps have been and heavy as they still lay on us, I am not distressed or discouraged. I am convinced that the worst is over, and that our recovery, though gradual, is none the less certain. We can take some satisfaction at least in the knowledge that our troubles have been due to artificial obstacles and not to any serious weakness in the underlying demand for housing.

We don't need to look hard to see that we have the makings of a strong demand, that will become effective as soon as our mortgage machine is again in good working order. The income situation is favorable. Each new report brings a fresh high point in personal income. The average family income is higher this year than last, and the proportion as well as the number of families with annual incomes of more than $5,000 is greater this year than last. Thus even without growth in the absolute number of families, we would have more of them in the effective income range so far as housebuying is concerned than was true a year ago. But the growth situation is also favorable. The absolute number of families is increasing. The decline from the peak postwar level of family information reached the bottom of the trough two years ago. Since then it has been pointing upward—slowly, to be sure, but enough to remove this factor as a negative influence. Moreover, baby production continues in record numbers. While we must recognize that population growth is not in itself any guarantor of prosperity, nevertheless when it is combined with a rising average level of family income and a general upgrading of income, particularly in the lower ranges, it can give a powerful push to housing demand.

r Business Ahead

The vacancy situation is favorable. The latest report of the Census shows a sharp decline in the number of available vacancies. As of the first quarter of 1957, the vacancy ratio was 2.2 per cent. In the third quarter of 1956, the ratio was 2.8 per cent. At the end of six months about 21 per cent fewer houses were on the market than at the beginning, in spite of the fact that during that period about 500,000 new houses had been completed. I wouldn't say this was building up a surplus very fast. In fact I think it indicates that at the present time we are underbuilding; and, in view of the favorable income and growth factors I have mentioned, the market seems to me to be in a position to absorb all the credit that is likely to be made available to it.

What are the prospects? For one thing the volume of savings *is* increasing. Compared with the first quarter of 1956, the annual rate of savings was 9.6 per cent higher in the first quarter of 1957—the difference amounting to almost two billion dollars more in the investment stream than there was a year ago. This gain is certain to be reflected in an increased rate of asset growth in the savings institutions of the country which supply the housing market with its mortgage funds. Moreover, the forward commitments of these institutions are about at a postwar low; and the amount of bank credit advanced on warehouse accounts has been drastically reduced. All this means that these institutions are getting into much better shape to do business than they were even a few months ago. While the demand for corporate funds so far this year has been very high, there are definite signs of a leveling off in volume, which will reduce the competition which mortgage borrowers have felt from this source.

As the year develops the availability of mortgage funds should gradually increase. Already the signs point in this direction. The seasonally adjusted annual rate of new private housing starts made a sharp jump from 800,000 in March to 940,000 in April. FHA applications have been gradually rising month by month since December. Offerings to Fannie Mae have shown a continual downtrend since the beginning of the year—a sign of increasing opportunities for private placement. Obviously, the turning point has only barely been reached, and we have a long way to go before we are even back to the level of last year. Nevertheless we are now on the way.

We may safely expect the rest of this year to be a period of expansion rather than of contraction and one of hope rather than of discouragement. While we may not make the million or more new units that were in prospect before Congress turned its back on an increase in the VA interest rate, we seem pretty certain to do as well as the presently estimated annual rate of around 940,000. Next year we should see the continuance of the revival at a somewhat lustier pace. Right now, I'd say the chances of reaching 1.1 million or more were pretty good.

The most unpredictable thing about our future is the future action of government. We have seen this year how an unrealistic attitude toward the interest rate question has practically wiped out an important part of home mortgage activity. We have learned how capricious dickering with the FHA loan-to-value ratios could seriously distort the market. We have seen how many members of Congress are willing to set up government competition with the private mortgage market on a score of fronts. This year we shall get off better than we might have hoped. While we have lost the VA program, we shall end up with FHA in somewhat better shape to meet current market demands than formerly. Most of the new forms of government competition have been eliminated and FNMA activity has been restricted to reasonable limits. No one can call the result a great advance to a free mortgage market, but, on the other hand, it has not been a great victory for those who would put government more firmly in the field.

What next year will bring no one can say, though we can be sure that, with an election just ahead, housing is apt to be even a more popular legislative topic than it has been this year. New efforts will be made to provide aids to housing, which always end up as controls over housing. All businessmen, individually and through their trade associations, should remain alert to this continuing trend and should strengthen their defenses against it. We can have a free market only if we are resolved to make it and keep it free.

Reviewing the factors affecting the mortgage business at mid-year, Vice President Hall, in some recent talks before various groups, summed up the assets and the liabilities and finds the present situation heavily weighted in favor of the former. The business may well have passed the low point of the present cycle, he says.

By **JOHN C. HALL**
Vice President, Mortgage Bankers Association of America

The Dilemma Facing t

TODAY the Federal Reserve authorities find themselves facing a real dilemma. If the present softening in business activity is only temporary and the upward swing in business and in commodity prices will be resumed in the near future with greater force, obviously it is not advisable to change present credit policy. On the other hand, if the softening in business is an indication of a coming readjustment, then the longer the Federal Reserve authorities adhere to the policy of active credit restraint, the more they will aggravate the decline and subject themselves to criticism later on.

Raymond Rodgers

At the same time, the Reserve authorities must consider carefully the possible adverse psychological impact of a change in credit policy under present conditions. It is even possible that if they take measures to increase the reserve positions of the member banks, thereby increasing the availability of credit and tending to depress interest rates, it may be interpreted as a sign of weakness and cause the pending decline to be more pronounced than it would otherwise be. For these reasons, the Reserve authorities are bound to move rather slowly and their actions at times will appear contradictory. It is even possible that, for periods, they may tend to ease the money market and then tighten it again.

Federal Reserve policy is not formulated in a vacuum. It is based primarily on a careful study of business activity, particularly the level of employment, on the movement of wholesale and retail commodity prices and, at least in part, on the position and needs of the Treasury. Of these, the business situation and the movement of employment play the most important roles. It is, therefore, necessary to review the entire credit picture to reach sound conclusions as to what the policies of the Reserve authorities may be.

The Reserve authorities pay careful attention to many factors, particularly:

» **Business Activity:** Industrial activity is evidenced by the Index of Industrial Production. This index stood at 146 (1947-49=100) in January, February and March, as contrasted with a peak of 147 in December. The average for 1956, when the country was in the midst of a great boom, was 143. Business activity, therefore, is not yet causing the Reserve authorities any concern on the down side.

» **Employment:** The total number of people gainfully employed in March reached 63,865,000, a record for the month, and 787,000 greater than a year ago. Nonetheless, the total number of unemployed increased and is somewhat larger than in March 1956. Moreover, employment in manufacturing industries has tended to decrease while that in the service industries continues to rise. Almost daily the neswpapers report layoffs of workers in one industry or another. The level of employment is considered a very important factor by the Reserve authorities. They must also take into account that the present work week is somewhat shorter than a year ago and that wages in manufacturing industries for the first quarter of the year have remained more or less stable.

» **Price trends:** Prices of *sensitive* commodities have tended to decline or level off in recent weeks. The Reserve authorities must decide whether this weakness in sensitive commodities forecasts a greater decline later on. The index of wholesale prices for the first quarter of the year remained relatively stable, while the consumer index continued to rise. The increase in the consumer index, however, is due primarily to the higher cost of services, which play an important role in the construction of this index.

» **Inventory accumulation:** The accumulation of inventories has slowed down and there are evidences of efforts to reduce them. Obviously, if inventories are curtailed, consumption will exceed production, which is bound to have an effect on employment as well as on wages.

» **Housing construction:** Home starts have decreased materially; in fact, instead of the usual seasonal increase, they dropped to 880,000 on a seasonally adjusted basis. As it is highly doubtful that the recent easing of mortgage terms by the Administration will have any appreciable impact on home starts, it is quite possible that this downward trend will go even further.

» **Capital expenditures:** Plant and equipment expenditures by corporations are leveling off. An increase of 6½ per cent is now estimated for 1957, compared with 22 per cent last year. Similarly, the demand for credit during the first quarter of the year was smaller than a year ago.

As these facts clearly indicate, even though the over-all economy of the country is still sound, weaknesses have materialized, and they are constantly increasing.

It follows, then, that the Federal Reserve Board faces the big question: Is this only a temporary situation or will the number of weaknesses increase and the entire economy begin to decline? The answer to this question will depend, of course, to a considerable extent upon developments in the durable consumers' goods industries in general, and automobiles in particular; and, to a lesser extent, upon retail trade during the spring selling season. If sales of durable

the Federal Reserve

By **RAYMOND RODGERS**

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consumers' goods do not pick up materially, it is quite evident that manufacturers of these products will curtail their production during the summer months. This, obviously, would have an adverse effect not only on the industries involved, but also on a number of allied industries, such as steel, copper, rubber, glass, and certain textiles. Under such circumstances, a decline in over-all business activity could materialize by June; and the pattern of business might be similar to that which prevailed during the second half of 1953.

It is, of course, extremely difficult to estimate what the very volatile automobile industry will do. Personally, I believe that the output and sale of the 1957 model cars will not come up to the expectations of the automobile manufacturers. In the first place, experience has amply demonstrated that whenever the automobile industry absorbs a substantially greater proportion of the disposable income in any one year, as was the case in 1955, it takes two years to overcome it. Second, many people bought the 1955 model on a three-year term and will wait until they have paid off the outstanding debt on their present car before they buy a new one.

Other than increased government expenditures, there is no new force on the horizon to give business a boost similar to that of the spring of last year. At that time, the decline in activity in automobiles and in housing was more than counteracted by increased capital expenditures by corporations. This is not likely to take place this year. Unless, therefore, the automobile industry and the durable consumers' goods industries, in

Are conditions developing that will force the money managers to make a change in their present fiscal policies? Many profess to see a change for the better in the mortgage market, yet the usual indicators, such as the prices for bonds, particularly for governments, do not appear to reflect a change. All important is the general business outlook, or as Dr. Rodgers says: "If the present softening in business activity is only temporary and the upward swing in business and in commodity prices will be resumed in the near future with greater force, obviously it is not advisable to change present credit policy. On the other hand, if the softening in business is an indication of a coming readjustment, then the longer the Federal Reserve authorities adhere to the policy of active credit restraint, the more they will aggravate the decline and subject themselves to criticism later on." Dr. Rodgers addressed the National Association of Mutual Savings Banks and indicated the way he believes the Federal Reserve will meet the dilemma it faces.

general, witness a greater pickup than seems likely at present, business activity in the next several weeks should be expected to start a moderate decline—and this will be reflected in the index of industrial activity as well as in the total number of unemployed.

Since I do not expect the durable consumers' goods industries in general, and the automobile industry in particular, to enjoy a material pickup in activity in the next few weeks, I am of the opinion that a decline will set in, and that this, in turn, will bring about a change in the credit policies of the Reserve authorities as well as in the status of the money market.

What will be the *extent* and the *timing* of this coming change in credit policy? Obviously, a positive answer cannot be given as Federal Reserve policy is highly flexible and subject to daily changes. It is my belief, however, that they will do little in the next several weeks, but will continue in their endeavor to determine whether the decline in business activity is only a temporary condition or whether it is the beginning of a readjustment. But, as the number of weak sectors in the economy increases, I am convinced that the Federal Reserve authorities will slowly and gradually change their policies. At first, the Reserve will appear as a buyer of Treasury bills in the open market and will continue such a policy until the present negative reserves, i.e., the excess of member bank borrowing from the Reserve banks over excess reserves, have been offset. This will probably not be precipitate; in fact, it may take several weeks. Once this point is reached, the Federal Reserve may lower the reserve requirements in the central reserve cities by one or two percentage points, and simultaneously lower the discount rate. However, I repeat, the process undoubtedly will be a slow one; in other words, a repetition of the policies that were adopted in the second half of 1953 cannot be expected.

If this analysis is correct, the impact of the change in the credit policies of the Reserve authorities will first be felt in the short sector of the market, namely, Treasury bills, bankers' acceptances, and commercial paper. Nonetheless, the prime rate will move exceedingly slowly.

The long-term rate of interest is not likely to reflect immediately the changes in the short-term market. Moreover, the change, when it does start, will be relatively slow in the long-term market. This is probable because many corporations, unwilling to pay the prevailing rate of interest in the capital market during the past year or so, have obtained term loans. As soon as bond yields decrease, such corporations may be expected to sell their own obligations in the bond market in order to repay their term loans. This will ease the position of the banks, particularly in the large cities, and thus have a depressing effect on short-term rates of interest. On the other hand, the increased supply of corporate securities will tend to maintain the rate on long-term obligations.

Another factor that will press upward on rates in the long-term market will be the increased supply of tax-exempts.

This differentiation between the reactions of the two markets to the changes in business activity and credit policy should not be misunderstood. Obviously, if the short-term rate decreases and the money market eases, it is bound to have an impact on the long-term bond market; and yields on high-grade bonds are likely to decrease, although not to the same extent as short-term rates.

Which road to take, which policy to pursue, these are the questions facing the Federal Reserve. Dr. Rodgers has made up his own mind. ". . I am of the opinion that a decline (in business) will set in and that this, in turn, will bring about a change in the credit policies of the Reserve authorities as well as in the status of the money market."

Some Easing in Mortgage Rates But

Present Rate Pattern Stays

And actually it is not a new pattern at all—just a return to the traditional format of the past and it will be with us for a long time to come, says this life company president.

By THOMAS E. LOVEJOY, JR.
President, The Manhattan Life Insurance Company

CERTAINLY it is an understatement to say that in recent months, particularly since the first of the year, the housing situation and mortgage market have been confusing. One of the major contributing factors has been the uncertainty as to what Washington would do with the VA mortgage program and the interest rate, as well as with FHA.

T. E. Lovejoy, Jr.

First, it is now pretty definite that there will be no increase in the VA rate.

Second, it looks as though the VA mortgage program will be allowed to expire next year. In a way, that is regrettable because the VA program has made a substantial contribution to our economy in many ways — it made it possible for veterans to provide homes for their families at reasonable costs, it enabled the builders to undertake with confidence large building projects to provide these homes—and of course, that resulted in business for all the trades and manufacturers who make the things that go into a house.

However, I have always thought that the VA mortgage program should not have been set up separately from FHA or to put it another way, that it was unfortunate to duplicate the facilities of FHA by setting up VA offices all over the country when legislation could have been passed enabling FHA with an already established experienced organization to provide a similar service to the veterans.

Congress may pass legislation to create a special provision in the law whereby FHA can provide mortgages for veterans. That is good; and although there would be some time lag before this feature could be set up and functioning, it may be that, in the long run, this would prove to be a good thing. I hope this legislation or similar legislation is passed.

In some ways I have been a little amused at the complaints about high interest rates during the past year. Actually the interest rates for long term money today are not high in relation to the interest rates that were prevalent during the 1920s. Historically, we have always had high interest rates in this country—because the demand for funds to finance our industrial growth has been greater than the savings available for investment. Between the 1920s and recent months we have had, from a historical point of view, unusually easy interest rates brought about artificially. This has spoiled some, including the builders, who in the last eight to twelve months, have had to learn how to operate under conditions where interest rates are higher. Many of these builders will survive, and those that do will learn how to do a better job than they did when interest rates were easier.

There is a difference between the high interest rates of the 1920s and today. One of the main differences is that the Federal Reserve Board has more know-how in the management of our money markets, which means that they can manage with more finesse and anticipate fluctuations in business better than they did 30 years ago. In the 1920s, the Federal Reserve was clumsy. That is not the case today. I make these statements fully realizing the Federal Reserve is the first to admit they cannot create prosperity or bring about depressions. All they can do is to influence the way business is going—but they can't stop the ground swells.

Actually during the past year the Federal Reserve has followed the market when raising its discount rate, rather than lead the market. Its increases in the discount rate were made after the market had already indicated that such increase was necessary.

Our high interest rates today are of course due to the fact that the supply of savings is not sufficient to take care of the demand for capital funds. This demand for funds for plant expansion, as well as for financing housing and other capital expenditures, has just been more than the funds available, and by funds I mean savings. It looks as if this condition will continue for some time.

I can see some signs, or I have a feeling that there could be some easing of the demand for funds during the second half of this year. This should result in some easing in the interest rates for long term money. I don't expect any material easing on short term rates in view of the

tremendous amount of refunding of short term obligations (some $82 billion) that must be done by the Treasury during the next twelve months, plus the necessity of raising funds for the payment of savings bonds that are being cashed. This cashing of savings bonds has added to the confusion in recent months—and we now realize it was a mistake to make savings bonds payable on demand.

If my guess is right that there is some sign of easing in long-term money rates during the second half of the year, there could be some easing in mortgage rates, too. However, I believe whatever easing there may be will be moderate, and mortgages must be in line with the money market. In other words, the yield on mortgages must be in line with the yield on other kinds of investments to be competitive and attract savings institution funds. Perhaps I should say institutional funds. As I see it, the trouble in recent months has been failure on the part of some to recognize the necessity for a spread between the return on mortgages and bonds. Bonds are easier to service or handle, not as costly to handle; and when one can get 4 per cent or better on a AAA Bond, it is hard to justify taking a mortgage unless there is approximately a 1 per cent higher return. In other words, the return on the mortgage should be approximately 1 per cent higher than on AAA bonds.

It is unfortunate that the need for a higher return on VA and FHA loans was not recognized sooner. If this had been done last summer, a lot of the distress in recent months would have been avoided. The increase in FHA interest rate was a partial answer, but in many sections of the country even 5 per cent FHA loans are being purchased at a discount. I believe the increase on FHA loans was too late.

The discount market is not bad when the discount is a matter of a few points; but when discounts get to be 8 to 10 points, that can seriously hurt the housing field and mortgage market. I personally don't like these big discounts. Also, I am not too keen on a premium market for mortgages —I surely hope that never comes back again! But discount and premium markets can be expected so long as there are pegged rates on FHA mortgages.

Some of our mortgage correspondents have asked how much money will be going into the mortgage market this year. In the case of my own company we expect to put about the same amount as last year if we can do so at competitive rates. From an overall standpoint, the amount of money that goes into the mortgage market, that is to say the amount of commitments made to go into the mortgage market, will depend largely upon this question of return. Trustees of funds like savings banks and life insurance companies have a definite obligation to invest their funds at the highest rate available in keeping with sound investment principles.

Recently I reviewed a memorandum forecasting the amount of saving funds expected to be available for investment in 1957. It was most interesting because it showed that in 1957 there will be about 6 per cent more savings available for investment than in 1956 to take care of the demand for capital expenditures. Where those funds will go will depend on the relative attractiveness of the investment.

"My guess . . . is that, even though we may have some easing in interest rates in the mortgage market, we can look forward to a comparatively lower number of housing starts every year for the next several years until the early 1960s."

The relationship of supply and demand for housing has more to do with the drop in starts than high interest rates. One frequently mentioned figure for the number of housing starts for 1957 is 880,000. That isn't so bad actually. Prior to 1948 we never had as many as 880,000 starts. I believe that since 1948 we have been building so many houses that the supply has finally caught up with the demand. If that is the case, it is only logical that there should be some easing off in the number of new starts. We may have this condition for several years, until the crop of war babies grows up, form families and the demand for housing takes another spurt. That is expected in the 1960s

Today most new houses provide three and four bedrooms, whereas a few years ago most of the new houses had only two bedrooms. People are buying bigger houses. The larger houses, plus increased costs, result in larger mortgages, so that the amount of money going into the mortgage market could very well be close to the same amount as last year, even though the number of mortgages is less. Some people might feel that, since the number of starts is down, it will result in a reduction of the number of mortgages available, and therefore, the resulting scarcity of mortgages should bring about easier interest rates for such mortgages. I wouldn't count on that too much. The determining factor in the interest rate on mortgages would not be the number of mortgages so much as their relationship to the returns on other investment outlets. The return on mortgages must be competitive. So, if my guess that there will be some easing in the long-term money market during the second half of this year is right, there could be some easing on the rate on mortgages. But the reason for this easing, as I see it, would not be due to the reduced number of mortgages so much as due to the maintenance of their competitive position in relation to other forms of investments.

I do not feel that the recent move for reduction in FHA down payments

will have any significant effect on the housing situation and on the demand for mortgages. Don't misunderstand —I am a great believer in the FHA pattern of small down payments and 20 to 25 year monthly self-liquidating loans. In fact, I believe the 100 per cent VA loan, at the time it was permitted, had considerable merit. The FHA and VA methods of financing homes, in my opinion, are much sounder than the old fashioned method of a two-thirds first mortgage and a second mortgage.

The reason I do not feel the reduction in the amount of cash down payments will have much effect on the housing situation and mortgage markets is that down payments are not the dominant factor today. The demand for housing, plus the supply and demand for long term money and the relationship of mortgages competitively with other forms of investments in this long-term money market, are the determining factors.

So, barring war or a national catastrophe, there will be some easing in interest rates during the last half of this year, which could cause some easing in mortgage rates. But I do not see any signs of a return to the easy rates we have had in recent years. There has actually been established a new pattern, or perhaps I should say the old traditional pattern, of relatively high interest rates which will be with us for many years, due to the need for savings to finance the mechanization and modernization of plant and machinery to increase productivity in order to offset increased costs and wages. My guess is that there will be fluctuations within this pattern of relatively high interest rates for a long time to come.

And my guess for the outlook for housing is that, even though we may have some easing in interest rates in the mortgage market, we can look forward to a comparatively lower number of housing starts every year for the next several years until the early 1960s.

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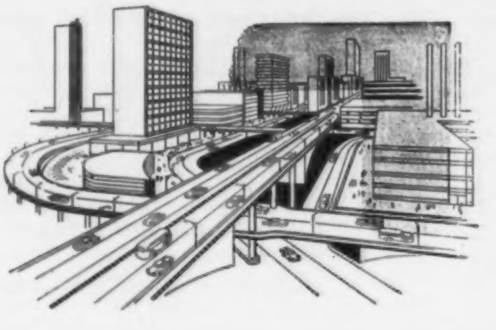
THE LOSSES BY THE TITLE INSURANCE



COMPANIES HAVE BEEN ON THE RISE

Because we have been made so conscious of the protection which title insurance provides we are prone to forget that losses can and do occur. The type of claims made and sustained are almost without number and seem to be on the increase.

A THOROUGH search of public records and title examinations by experienced counsel prior to the issuance of a policy of title insurance on real estate serves as a bulwark against future loss for the investor, the mortgage lender, and the title insurance company itself.

But, over the years, this bulwark has not been impregnable. Sometimes defects have resulted in substantial losses to the title insurance companies. The variety of claims against title made and sustained is almost without number, while the aggregate loss paid on all claims, large and small, seems to increase each year.

In New York State the total of all losses in 1954 was reported to be $188,465 while the total of loss, and loss expense, in 1956 was $323,344.

It has been estimated that at least 37 per cent of all losses paid by title insurance companies in the United States are due to off the record matters or hidden defects in the title.

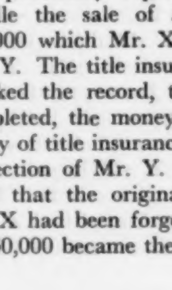
A study of some of the larger losses sustained at various times reveal the wide variety of causes involved.

A case of outright forgery cost one company $50,000. A controversy relative to an unfiled mortgage commitment was settled for $200,000. Another company has reported the payment of claims totaling about $260,000 on policies issued on the certifications of one attorney.

The facts relative to the first of these losses are briefly told. A Mr. X retained a well known attorney who had previously represented him to handle the sale of a mortgage of $50,000 which Mr. X was selling to Mr. Y. The title insurance company checked the record, the closing was completed, the money passed, and a policy of title insurance issued for the protection of Mr. Y. It later developed that the original mortgage to Mr. X had been forged and the loss of $50,000 became the liability of the

By **PALMER W. EVERTS**

Executive Secretary
New York State Title Association



title company which was met and paid.

Another company insured a building loan mortgage of $4,000,000 on a hotel in New York City. At the closing the building loan contract, in the usual form, and the bond and mortgage were executed and thereafter the building loan contract was filed and the mortgage recorded.

In an action brought to foreclose the mortgage in question, lienors who had filed liens amounting to about one million dollars were made parties defendant. Answers were interposed by the lienors claiming priority because an earlier preliminary agreement or commitment to make the loan was not filed as required by law. Such an agreement or commitment, it was claimed, constituted a building loan contract within the meaning of the law in effect at that time and should have been filed in the county clerk's office within ten days after its execution. The applicant claimed that the preliminary agreement was exhibited at the closing to the representative of the title company.

In view of the large amount of the claim, the company, deciding that discretion was the better part of valor, made a settlement of 20c on the dollar which meant a loss of $200,000.

A claim for $150,000 was encountered in settlement of a vendor's lien for the unpaid purchase price. Normally, the seller takes back a mortgage to secure that part of the price not paid in cash. If he does not take such a mortgage his vendor's lien can be enforced against his purchaser but is lost as soon as the property passes to an innocent purchaser for value because there is nothing of record to show the existence of a lien.

A deed to certain property in Manhattan read "in consideration of the sum of one hundred fifty thousand ($150,000) dollars evidenced by the promissory note of the party of the second part" etc. The title was insured to a subsequent purchaser three years later. The consideration clause in the earlier deed did not seem to be of any special significance to the title reader and the title was insured without any special exception being raised to the clause.

A year later a tax examiner for the State Tax Commission made a spot check of recorded instruments, noted the reference to the promissory note, and decided that the mortgage tax of $750 should have been paid to the Register when the deed in question was recorded. He notified the last owner, the holder of the title policy, who immediately notified the title company.

In a routine investigation of the matter the title company communicated with the grantor named in the earlier deed. The investigation "boomeranged" against the title company. Eminent counsel advised the earlier grantor that he had security by way of a "vendor's lien" for a debt that he previuosly considered uncollectible. He started an action to foreclose the lien, contending that the last owner was not an innocent purchaser because the deed had recited the promissory note and should have put him on notice of the "vendor's lien." Rather than risk adverse decision on a claim for $150,000 the title company settled the lawsuit for $50,000. To add insult to injury the title company also had to pay the claimed mortgage tax and accumulated penalties.

One of the large western title insurance companies has reported a substantial loss which arose out of mechanics lien insurance, protecting additional advances under original construction loans. Market conditions and the inexperience of the builder plus his inability to use the loan proceeds where they belonged, led to a deficiency of approximately $750,000 in the overall construction of 811 houses. On behalf of their insured lenders the title insurance company negotiated with the creditors and obtained a settlement for $285,000.

Another company uses the "approved attorney" plan and insures titles based upon the examination of carefully selected attorneys of known ability and integrity. Losses in excess of $260,000 have been sustained by this company due to the defalcations of one attorney. By his own admissions he failed repeatedly to pay off prior liens but certified to his clients and to the insurance company that he had done so. Moreover, he closed loans to "borrowers" who did not have title to the property securing the loans. He also closed loans to "borrowers" who say they had no knowledge of the loans and that their signatures on deeds and mortgages were forged. The company reports that this hysterical binge was financed by three mortgage concerns, five life insurance companies, seven savings and loan associations, and one bank—sixteen lending institutions located in eight different states. All the evidence discloses a well conceived plan by the attorney to obtain the proceeds of numerous loans in an effort to keep himself afloat financially. This company reports their understanding that

a number of local lenders will also lose $100,000 to $150,000 not covered by title insurance.

A midwest title company insured the title to two lots for $10,000. When the owners erected a large apartment building on them they increased their policy to about $100,000. Two years after the first policy was issued a resident of California came in, proved his ownership to the lots, and that the deed to them, formerly relied upon, was a forgery. The company paid $12,000 for a deed from the real owner and sent the forger of the earlier deed to the penitentiary. It is well for an owner to provide title insurance protection up to the full amount of his investment at all times.

Another company in a nearby city insured two adjoining lots for a motor sales company. Title to one of these came through a man who claimed to be buying it on contract from a Mr. and Mrs. S. On payment of $9,650 he produced a deed bearing their signatures. Both the contract and the deed were later found to be forged instruments. The insuring company paid $25,000 plus brokerage commissions of $1,200 to secure valid title to this one lot for its insured.

The loss expense incurred by title insurance companies in defending titles may also run into substantial cost. The City of New York, seeking certain waterfront property, denied the authority of a governmental agency to convey to private parties two parcels which that agency deeded out in 1890 and 1892. In addition to a large investment in man hours, the court costs to successfully defend the company's insured exceeded $10,000.

Original grants of land required for the New York World's Fair had been lost or mislaid. A substantial cost of many thousands was involved in research work and court proceedings to validate title to these properties against "the crown" or its successor, the city of New York. Adverse possession could have been readily established against any adverse individual claimant.

When Napoleon sold the Louisiana territory to the United States for $11,250,000 the Spanish government and some inhabitants of the territory objected to the sale. Diplomacy settled Spain's objections but it took $3,750,000 from the United States Treasury to satisfy the claims of the Louisiana inhabitants. The rule of ***caveat emptor*** was in full effect at that time and the immediate progenitors of title insurance were not yet born.

MOTELS VS. HOTELS

(Continued from page 23)

take to assume that total traffic volume on a given route is a measure of motel patronage. "Long distance travel on main highways is the only reliable source of income for the average motel," he said.

Another factor in the selection of a motel location is the avoidance of sites along roads that may be bypassed by new highway construction. "Every motel along U. S. 9 and U. S. 1, for example, was affected adversely by the completion of the New Jersey Turnpike, and practically every motel between Chicago and New York has been, or will be, affected adversely by the creation of the New York State Thruway and its connecting roads across Ohio and Indiana."

Other distinguishing characteristics of the motel business were listed as:

» A cost advantage over hotels (cost of room construction, $16,000 for a hotel; $4,500 for a motel) which enables motels to enjoy an advantage in rates which must be charged.

» The ability of motels (because of far smaller staffs, self-service, cheaper outlying land, lower construction costs) to break even with 40 per cent occupancy or less, while most hotels require 65 to 70 per cent occupancy.

President's Page

THE COMMITTEE — WORKHORSE OF OUR ASSOCIATION

As MBA has grown in size and stature and as its interests and activities have broadened, committees become more and more important as they do much of the work as well as contribute to long range planning. Realizing that the strength of our Association lies largely in its committees, painstaking efforts were taken in the selection of committee members. The fact that our present committees have worked hard during the past eight months has not surprised me when considering the abilities and competence of the Chairmen and their committee members. Considering the valuable contributions these committees have made I propose to review the accomplishments of each committee before the end of my tenure of office. Needless to say, every committee deserves the thanks of the entire MBA membership.

John F. Austin, Jr.

The Mortgage Servicing Committee, headed by Howard E. Meyer of New York is understandably one of MBA's most active committees considering the tremendous importance attached to servicing in our mortgage operations. Some of their accomplishments are as follows:

1. The three Servicing Clinics with the largest attendance in MBA history represented one of the most practical contributions MBA has made to members striving for the most efficient and economical operation of their business.
2. The Twenty Million Dollar Club, the first of its kind ever held, met with outstanding success because its entire program was devoted to assisting and discussing the problems of the smaller mortgage banking firm.
3. The Electronic and Tabulating Equipment Servicing Clinic to be held September 23-26 in New York City will be the first of its kind ever sponsored by MBA, devoting its entire program to those firms contemplating or now using tabulating equipment.
4. The Servicing Letters to Members contain such accomplishments as securing permission from FHA to co-mingle trust funds of other type mortgages, etc.

The Insurance Committee, headed by M. J. Mittenthal of Dallas, has rendered invaluable service during the year. A record of their accomplishments follows:

1. A close watch has been maintained at all State levels on unfair and harmful legislation affecting the insurance side of our business.
2. Members in affected States have been alerted and constructive action taken.

The Financing Minority Housing Committee, headed by George B. Underwood, Jr. of Irvington, N. J., is constantly faced with delicate problems. This committee's work by its very nature is long term in achievement. Notable and satisfactory progress is being made in this area as evidenced by a booklet, *Jane and Bill Learn How a Mortgage Works,* which is being created in the so-called comic book format and will be distributed to members who can order supplies for individual distribution under their own imprint.

The Legislative Committee, headed by Bob Tharpe of Atlanta is always an active group because of the numerous and important national legislative problems confronting our industry. A few of their activities are stated below:

1. This year a new housing bill will be enacted and from its inception this Committee has been studying and working on it.
2. Chairman Tharpe and I have appeared at numerous Congressional hearings carefully explaining and interpreting our industry's point of view.
3. As a result of the above, the final version of this bill will not contain the original radical proposals.
4. This Committee has done a tremendous job in educating our national legislators in the complex problems of mortgage financing.

Working closely and in perfect harmony with the Legislative Committee have been the *FHA Committee* headed by Carey Winston of Washington, D. C. and the *GI Committee* headed by Paul J. Vollmar, Jr. of Albuquerque. These committees will be discussed in length at a later date. In succeeding pages the work of other committees will be detailed and I can assure our members that each one of them is doing a conscientious and successful job.

J. F. Austin Jr.

PRESIDENT

Tight Money Big Factor in Farm Loan Field, Too

But not quite the disrupting element it has been in the city loan business. Rates have risen, lenders are choosy about the loans they make but, as is true in the city loan field, delinquencies have been few and far between.

WHILE tight money and severe credit restrictions have been the dominant factors in the city mortgage business the past two years, their influences have not been so sharply felt in the farm mortgage field. True, the heavy demand from all users of credit has been felt but in the farm field not in the same degree as in housing financing and industry generally. According to the Federal Reserve Bank of Chicago, the change in interest rates in farm loans has been relatively modest as compared with the increases which other business borrowers have experienced.

The "prime rate," for example, that rate charged businesses with the highest credit rating, has moved up sharply in the last year and a half, from 3 per cent as late as August 1955 to its present 4 per cent level. In contrast, from records of farm loans made by Midwest banks over the past year, it appears that few farm borrowers have experienced an increase of more than one-half of one per cent in their borrowing cost and probably a majority have noted no change at all. In this respect it appears that both the farmer and his city cousin, the "small businessman," have been less affected by rising interest rates than have large business firms.

Data for a group of Midwest banks indicate the upgrading of charges has been confined largely to loans of \$1,000 or more. During 1956 there was virtually no change in the interest rate pattern on small farm loans (under \$1,000). As loans of \$1,000 and over account for less than two-fifths of the number of all non-real estate farm loans made by District banks, and as the upward movement of rates has been small on these loans, it is apparent that relatively few bank borrowers experienced much increase in interest rates.

Larger loans generally bear a lower interest rate than those in the under-\$1,000 category. With the expense of interviewing and investigating applications, appraising security and closing and collecting loans ordinarily about the same for large amounts as for small amounts, the larger the loan, the lower will be the per dollar servicing costs. In addition, the large loans and credit lines frequently are to the borrowers with larger net worths, indicating lower risk.

With lower per dollar servicing costs on the larger loans, the interest rates on these credits may reflect more closely changing conditions and the cost of money itself. To the extent that a "conventional" rate has been widely accepted in the community, boosting the rate to the larger and the better credit risks may offer the line of least resistance in adjusting to increased credit demands. Raising rates to the larger farm borrowers, of course, affects a substantial portion of the dollar volume of agricultural loans, but relatively few rural customers.

Insurance companies, which supply an important part of the long-term farm mortgage funds, have been writing an increasing portion of their loans at higher rates. To a considerable extent this reflects the higher rates available on alternative investments, especially mortgages on residential and commercial properties. In the Midwest, a considerable number of farm mortgages written currently by insurance companies carry a 5 per cent rate. Relatively few are being written at 4½ or 4¾ per cent, rates that were fairly common in the Midwest a year ago. However, competition for high-quality, long-term farm mortgage loans continues strong and is a major factor restraining the rise in rates on such loans.

While interest rates for farm loans have not risen quite in proportion to other rates (in some forms of credit, rates have gone higher than at anytime in the past quarter century), there have, of course, been increases. The Federal Land Banks have increased their rates, generally to 5 per cent from 4½ per cent, and in some instances to 5½ per cent from 5 per cent.

In the fourth quarter of 1956, farm mortgage lending, however, continued less active than a year earlier. Farm mortgage acquisitions of both 16 rep-

resentative life insurance companies and the Federal land banks were below comparable periods in 1955, but closings of farm ownership loans of the Farmers Home Administration increased from a year earlier.

Interest rates charged for farm mortgage loans of insurance companies rose. Basic rates of 5 to 5.5 per cent are now charged by leading companies in this field and higher rates are reported occasionally.

Although farm mortgage acquisitions in late 1956 were smaller than those of the same period in 1955, both the number and amount of farm mortgages outstanding on December 31, 1956, were higher than a year earlier.

Both the number and amount of farm mortgages held by these 16 companies increased during the fourth quarter of 1956. At the end of the quarter, these companies owned 186,000 farm mortgages with an outstanding principal of $2,188 million. Interest on only 271 of these mortgages was overdue by more than 3 months, and only 86 were in process of foreclosure.

Farm mortgage commitments in the fourth quarter for 12 companies, were $70 million, as compared with $81 million in the same quarter a year earlier. Purposes of commitments for these 12 companies changed considerably during 1956. The proportion of the funds committed that was to be used for refinancing of indebtedness (particularly refinancing of farm real estate indebtedness) declined substantially, and the proportion to be used for purchase of farm real estate increased substantially. Total commitments for all 16 companies in the fourth quarter of 1956 were $133 million, which compares with $153 million in the fourth quarter of 1955.

The most notable fact in the experience of these 16 companies in 1956 is the decline in the number of farm mortgages acquired which reflects the generally tighter credit situation in 1956. In the fourth quarter, the number of mortgages acquired was 20 per cent below a year earlier and the total amount was 3 per cent less. But the average size was $16,300 in the fourth quarter of 1956 as compared with $13,300 a year earlier. Loans for the entire year of 1956 were also below 1955, and the number of farm mortgages acquired was off 12 per cent. However, the total acquired was up 2 per cent and the average size of mortgage acquired for 14 companies was $15,400 in 1956 as compared with $13,600 in 1955.

ABA's Agricultural Commission also reports that farm credit held by banks, now near a record high level, is on a sound basis with forced sales and delinquencies infrequent. This view reflects the opinion of key bankers nation-wide.

The report states that "although data are incomplete, 1956 apparently was another departure from the rapid farm credit buildup prevalent in much of the postwar period. Following a sharp 12 per cent increase in bank farm credit volume in 1955, farmers started to 'level off' their demand for credit. By mid-1956, bank credit volume was 5 per cent above the year previous; and by January 1, 1957, the 'leveling off' was nearly completed."

The Commission's report also notes a continued shift toward a greater proportion of farm credit secured by real estate, reversing the trend toward more non-real estate credit in effect from 1940 to 1952. This is attributed to higher land prices and to the need for longer repayment terms associated with the greater investment requirements of modern agriculture.

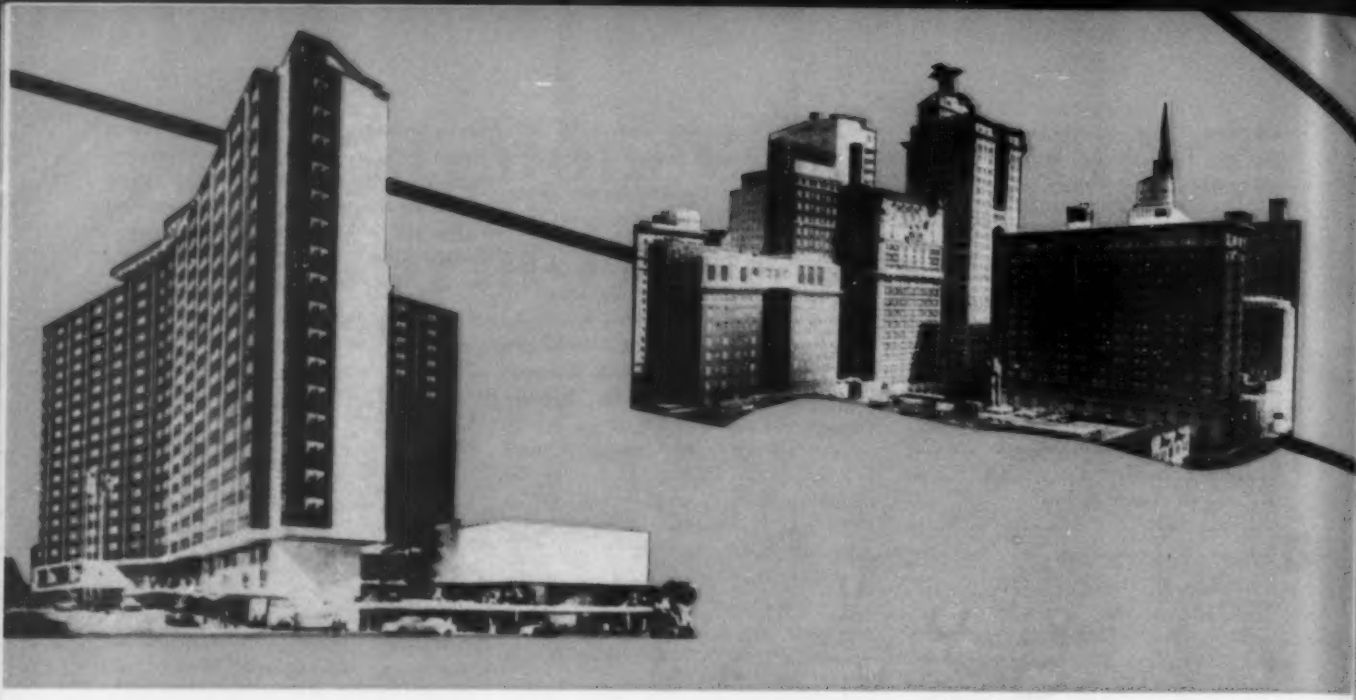
Not only is the farm credit picture given the ABA by the county key bankers a bright one but it is brighter than at this time last year. When asked if there had been an increase in delinquencies, the bankers answering "no" totaled as follows:

	1956	*1957*
Farm real estate loans...	73%	79%
Non-real estate loans....	57%	69%

"Notwithstanding general strength in the farm credit picture," the report states, "problems do exist on individual farms—particularly in certain areas. For example, bank officers in general are well aware of the harsh effects of a cost-price squeeze.

"Low equity, the need for longer repayment programs, and acreage restrictions associated with government subsidies were mentioned by many bankers as major farm financial problems. This year the drought and need for longer terms were mentioned more frequently, while low equity and acreage restrictions were discussed less often.

"By recognizing existing credit problems, banks have been able to take several steps — a larger volume of credit, more 'carryovers,' low number of forced sales, and extensive use in some areas of the correspondent function. These all reflect the desire of bankers to serve the credit needs of farmers who are efficient or show promise of making a contribution to the economic growth of their farm community."



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For the Time of Your Life

Dallas This Fall

at the MBA Convention

An Event You Cannot Afford to Miss

MBA'S 44th ANNUAL CONVENTION
DALLAS • NOVEMBER 4-7, 1957

The most important event of the year for the working mortgage man, the one and only nation-wide gathering of mortgage originators and investors, the only national forum of discussion of mortgage problems, the one time for making and maintaining those all-important contacts which are the heart of mortgage banking . . . . the time, place and occasion is the annual MBA Convention.

The Program Agenda: The mortgage industry today represents countless ramifications, procedures and problems. The program you will hear in Dallas will cover them. Authoritative spokesmen will explore and interpret the complex developments in the vast field of monetary policy and explain the potentialities of the new housing legislation. And the practical aspects of operating a mortgage business will have an important place on this year's program. All in all, the MBA Convention is your annual refresher course in operating your business, in gauging the trends in our field, in preparing you to better plan ahead. And, as one of the benefits of your membership, it is limited to members only.

The Lighter Side: With the Convention in Texas, that means the Texas touch will be seen in just about everything connected with it—and particularly the entertainment side. A bigger, more novel program of fun and enjoyment than any previously offered awaits you in Dallas.

Things Not to Be Overlooked: The Convention is still four months away but the summer months intervene so don't delay in making your plans. Important at the moment are:

» **Your hotel accommodations:** If they have not been processed, advise the Chicago office so the Housing Bureau forms can be supplied.

» **Don't fail to register in advance**—$35 for members and $25 for wives. For your convenience, registration this year is a "package" with your registration covering Club MBA and, for wives, an entire series of events she will not want to miss.

» **Post Convention:** For those members who want to take advantage of the fact that they will be in Texas this Fall by taking a post-Convention trip, seven attractive tours of Mexico have been arranged for us by the International Travel Service. This is your opportunity to see Mexico—any part and for as long or as short a time as you care to spend—in company with agreeable MBA companions. For a full description of these tours, write International Travel Service, Palmer House, Chicago or our Chicago office.

» **Most Important of All:** It's making your plans early . . . hotel, transportation, etc. . . . so there will be no disappointment later.

Meetings Coming

Something Brand New, a Big Meeting With a Long Name and Big Possibilities —

MBA ELECTRONIC AND TABULATING EQUIPMENT SERVICING CLINIC, IN NEW YORK, SEPTEMBER 23 TO 26

Except for the School of Mortgage Banking courses at Northwestern and Stanford Universities, the next meeting coming up on the MBA schedule is something entirely new for the Association—in fact, entirely new for any organization. It is our Electronic and Tabulating Equipment Servicing Clinic at Hotel Commodore, New York, September 23-26; and, as its name suggests, will be a meeting devoted exclusively to the use of electronic and tabulating equipment in every phase of the mortgage industry. Nothing quite like it has ever been sponsored before, which is somewhat surprising in view of the fact that detailed studies clearly indicate that there is a definite need for more accurate instruction in this field.

During recent years the use of electronic office machines has grown tremendously in popularity in all fields of industry, which is easily explained by increasing costs, mounting volume, personnel problems and the need for maximum efficiency and speed. This trend has been emphasized in the mortgage industry as well. Edward J. DeYoung, MBA Director of Accounting and Servicing, made a survey of this field in an effort to determine accurately the demand in our industry and the response that a meeting covering it would have. The results showed that more than 30 per cent of all MBA members are either using some of this type of equipment or intend to do so in the near future.

This is the background for the forthcoming Electronic and Tabulating Equipment Servicing Clinic in September. The main purpose is to demonstrate to those attending what this equipment is, its scope and how various units fit into every phase of mortgage loan servicing. As of now it is clear that a substantial number of MBA member firm personnel are not familiar with it. At the Clinic, electronic and tabulating machines will actually be on the program, not as parts of an exhibit but as parts of the program itself.

It should be emphasized that this meeting is not primarily for the large mortgage companies—it will have equal appeal for the smaller mortgage firms for whom this type of equipment is as readily adaptable.

Thomas E. McDonald, Vice President, T. J. Bettes Company, Houston, has been named Chairman of the Clinic, with W. W. Dwire, Vice President, Citizens Mortgage Corporation, Detroit, as Vice Chairman, with Mr. DeYoung as co-ordinator. The Committee members are Howard E. Meyer, New York Life Insurance Co., Chairman, Servicing Committee; A. A. Johnson, Colonial Mortgage Service Co., Upper Darby, Pa.; and John K. Benoit, Equitable Life Insurance Company of Iowa, Des Moines. A full four-day program is now being planned and will be presented in detail in forthcoming issues of *The Mortgage Banker*. In the meantime, it will be good business for every MBA member firm to note the dates and the occasion and begin selecting personnel members to attend this meeting.

T. E. McDonald

E. J. DeYoung

A. A. Johnson

W. W. Dwire

John K. Benoit

Howard Meyer

Illinois Gets a New Law Making Lending on Mortgages Easier, MBA Groups Help Drive

Following similar outstanding achievements in Indiana and West Virginia, a significant modernization of state mortgage and foreclosure laws has been accomplished in Illinois where a new Bill amending the State's 85 year old legislation to ease the problem of obtaining mortgage financing was passed overwhelmingly by the Assembly and signed by the Governor. The Chicago and Illinois MBAs played leading roles in getting the law passed.

The main features of the amended legislation include:

» It reduces the road blocks which have prevented an expansion of the supply of funds for home mortgages in Illinois.

» It simplifies the mortgage laws, and makes lending in Illinois more attractive to all types of investors. For example, a corporate trustee can now waive its right of redemption so that the total period will be three months in contrast to the previous fifteen months. This provision does not apply to farms or to residences of from one to four families.

» The new law gives the property owner an opportunity to avoid a deficiency judgment if the deed is traded for the debt, or if the court finds the property to be worth no more than 90 per cent of the total debt. The owner has a three month period to redeem.

» In all cases not specifically covered by the foregoing, where the owner has a twelve month redemption period after sale, the right of creditors to redeem runs during the last three months of the twelve month period, instead of an additional three months after the owner's twelve month redemption period expires. However, the home owner always has the last right to redeem. As a result of this change, the maximum redemption period in any foreclosure proceeding is reduced from fifteen to twelve months.

H. Hoyt Thompson, president of the Chicago MBA, said the new legislation will benefit owners of all types of real estate as well as those engaged in related fields such as building materials, construction, real estate and home furnishings.

He said modernization of the Illinois laws will increase the supply of funds available for mortgage loans from life insurance companies, mutual savings banks, pension funds and other investors. Previously, he said, certain investors were reluctant to do business in Illinois because of the delay and expense resulting from the foreclosure laws. While several other states are still ahead of Illinois in modernizing their mortgage laws, Thompson called the Illinois changes "a step in the right direction."

E. J. McCarthy New Head New York MBA

Eugene J. McCarthy, vice president of J. I. Kislak Mortgage Co., Inc., was elected president of the New York MBA.

Other officers are Russell G. Smith, vice president, Manhattan Savings Bank, vice president; Ernest L. Hall, assistant vice president, Knickerbocker Federal Savings & Loan Association, treasurer, and John F. Eleford, president of Eleford & Rutgers, Inc., secretary.

W. F. FitzGerald, of FitzGerald, Reed & Bisco, and Harry Adams, of H. A. Adams Co., were elected to the board of governors.

Illinois gets new legislation which will make mortgage lending easier. Left to right, Robert L. Seise, of Rockford, president of the Illinois MBA; Russell Miller, executive vice president, Home Builders Association of Illinois; State Rep. Robert Burhans; Harry Goodsitt, executive secretary, Illinois Savings and Loan League; and H. Hoyt Thompson, president, Chicago MBA. Rep. Burhans sponsored the bill in the Illinois General Assembly. A number of Illinois groups supported the legislation which alters the old Illinois laws to make lending in the state more attractive to more investors.

Texas MBA honored MBA President John F. Austin, Jr. with a reception. With him here are Robert F. Evans, The Volunteer State Life Insurance Co., Chattanooga; Grant Torrance, Business Men's Assurance Company, Kansas City, Missouri and Earl B. Schwulst, The Bowery Savings Bank, New York. At one of the sessions, Richard A. Booth, Springfield Institution for Savings, Springfield, Mass., addressed the group. Left to right, Thomas A. Bradshaw, Provident Mutual Life Insurance Company, Philadelphia; J. D. Ansley, D. Ansley Company, Inc., San Antonio; Mr. Booth; Ames L. Gill, The Richard Gill Company, San Antonio; H. A. Yoars, First National City Bank, New York; and King Upton, The First National Bank of Boston.

Texas MBA Conventions have tight schedules with a full program interspersed with numerous social events. Above, a luncheon meeting. Right, highlight of the social side, the costume party for and by the "Poor People of Texas." Left to right, Mr. and Mrs. A. A. Abernathy, Joyner Mortgage Co., Dallas, first prize winner for couple with best costume; Mrs. Everett Mattson, who won first prize for best lady's costume; and Ralph Dalton, Mortgage Investment Corp., San Antonio, who took first prize for a man's costume. In rear, James E. Klaver, convention chairman, president, Mortgage Investment Corporation, San Antonio.

Below, left, more of the poor people of Texas, Mrs. E. Gordon Smith, Dallas; Robert D. Johnson, Dallas; Mrs. Robert Saville, Dallas; Frank Wolfe, Dallas; Mrs. M. J. Mittenthal, Dallas; Mrs. Paul Crum, Dallas; Mrs. Dudley Brutsche', Fort Worth; Mrs. J. DuVal West, Dallas; J. DuVal West; Mrs. William W. Fair, Arlington; and Mrs. Robert D. Johnson, Dallas.

Center row, seated, M. J. Mittenthal, N. E. Mittenthal & Son, Inc., Dallas; Paul Crum, M. P. Crum Company, Dallas; Dudley Brutsche', Jones-West Mortgage Company, Fort Worth and William W. Fair, Fair & Cook, Arlington.

First row, seated, L. James Quick and E. Gordon Smith, Lawyers Title Insurance Corp., Dallas.

Judging costumes during the Grand March of the poor people of Texas. Far rear, holding loving cup, James E. Klaver. Judges at side of Mr. Klaver, Sam Neel, MBA general counsel; Aubrey M. Costa, Southern Trust & Mortgage Co., Dallas; L. Douglas Meredith, National Life Insurance Co., Montpelier, Vermont.

Center contestant, Charles E. Sigety, FHA deputy commissioner.

Meeting in Texas

Always one of the big events in a mortgage year is the annual Texas MBA Convention, which this year was in San Antonio with more than 600 attending. It was the group's 41st annual meeting, and found the Texas Association with the largest membership in history and with the state also providing the largest membership on the MBA rolls.

As might be expected, the outlook for a freer flow of mortgage funds, and the possibility of what the new housing bill may or may not do to stimulate building, were the principal topics on the Convention agenda.

Principal speaker at the opening session was MBA President John F. Austin, Jr. He told the mortgage bankers that "it is not enough to consider the mortgage banker as a channel for the flow of capital. We are more than a conduit.

"I doubt that any other form of economic activity is more subject to governmental influence and from the opening of the present session of Congress we have found ourselves faced with probably a more serious threat to the independence and integrity of the private mortgage credit system than at any time since the great depression."

Austin said the MBA "vigorously reasserts" its belief in freely moving interest rates.

Thomas A. Bradshaw, president of the Provident Mutual Life Insurance Company, projected some views of the present money situation. He said, "controls on money play a big role in fighting inflation and should be continued."

James J. Teeling of Dallas was elected president to succeed Ames L. Gill of San Antonio. Other officers elected were Carroll L. Jones, Corpus Christi, vice president, and J. DuVall West, Dallas, secretary-treasurer.

The terms of six directors expired and replacements were named to fill those vacancies. New directors are: Robert C. Wilson Jr., Houston, and Paul Crum, Dallas, with terms expiring in 1960; and J. D. Ansley, San Antonio, replacing new vice president Jones, with term expiring in 1958. Re-elected as directors with terms to expire in 1960 were James E. Klaver, San Antonio; J. W. Link Jr., Houston; Tom E. Sargeant, Dallas, and Lloyd Sessions, Corpus Christi.

Texas MBA elected new officers. Left to right, Carroll L. Jones, Carroll Jones Company, Corpus Christi, vice president; Ames L. Gill, The Richard Gill Co., San Antonio, retiring president; James J. Teeling, The Teeling Mortgage Co., Dallas, new president; and J. DuVal West, Jones-West Mortgage Company, Dallas, secretary-treasurer. Below, wives of the officers, Mrs. J. DuVal West; Mrs. Ames L. Gill; Mrs. John F. Austin, Jr. and Mrs. James J. Teeling.

Each year Texas MBA gives the J. E. Foster award to the Association's member deemed to have performed the most outstanding service for the group during the year. This year Paul Crum, president, M. P. Crum Company, Dallas, was given the honor. Left to right, J. E. Kuykendall, Mayor of San Antonio, Mr. Crum and Ames L. Gill, retiring Texas MBA president.

Our Mortgage Servicing Presented Problems; We Solved Them This Way

THE normal complexities of mortgage servicing are numerous but in the case of our firm these problems are multiplied 52-fold.

Not only must we maintain records for our own needs, but as a loan servicing organization, we are gearing our record-keeping methods to mesh with the systems of the 52 major investors we serve.

This situation calls for a variety of reports to be produced at varying intervals and in several different forms. The premium it has placed on flexibility of method has led us straight to punched card accounting.

There has been a slow but steady switch, among the firms we service, to single debit reports because of the many control accounting advantages which they afford. The reporting requirements of our investors vary from daily reports to one report a month. Some want special reports on a sporadic basis. Our job is to fill these multiple requirements quickly and accurately. To be able to draw the necessary information from our card files and present it in a number of ways without making a manual typing and bookkeeping job out of each one is a tremendous asset.

Our firm has been on an IBM system since mid-1955. The change to this system was actually one of the major steps in our development.

The company was founded by Thomas C. McMillan in 1949, in the small city of Oxnard, some 60 miles north of Los Angeles. Five years later, the advantages to be gained by being situated in the midst of its largest mortgage market, prompted a move of company headquarters to Los Angeles. Today, the company maintains offices in seven California cities, Los Angeles, San Diego, San Bernardino, Palo Alto, Oakland, Sacramento, and Fresno, and our market includes the entire state.

Our seven California offices originate mortgage loans for investors located from coast to coast. All together these offices have developed a servicing portfolio of over 16,000 loans having an aggregate principal balance of over $160 million. All are serviced in the headquarters office in Los Angeles.

The complex set of conditions resulting from a large loan portfolio and many investors, constitutes a challenge in recording and accounting methods. Until mid-1955, bookkeeping machines were used as the nucleus of the system to meet this challenge. However, the speed, accuracy and flexibility of modern electric accounting machines were necessary in order to render reports on time and in a form readily usable by our clients.

Today, loan accounting begins with pre-punched cards, one deck being prepared for the use of the mortgagor as payment coupons to accompany his remittance, and a file of pre-computed cards being maintained for posting of payments. Along with these, three basic cards are prepared for each new account—a name and address card, a balance card, and an insurance information card.

As each new loan is closed, a payment coupon book is prepared covering all payments due for the current calendar year and sent to the mortgagor. Subsequently, similar books are issued annually in December for the next calendar year. These books contain 13 payment cards, pre-addressed envelopes, and a loan statement for the coming period, showing a breakdown of payments and the resulting principal balances.

The coupons themselves are on standard size IBM card stock, but only the right hand portion, which is the remittance stub, is set up for punching. These stubs have 22 columns, and into them are punched loan code numbers and payment total as well as late charges. These are machine-printed along the top of the card for the visual guidance of the payor. The late charge itself appears on the left-hand portion of the card. This side also contains printed payment instructions, and serves as a stub for the payor.

When payments are received in the cashier's office, the checks are balanced against the stubs, and those stubs which balance with the cash are forwarded to the IBM department.

Some payments are received for off amounts, and so fail to match the

Mortgage servicing operations seem to have a way of becoming "different," particularly when a firm's portfolio gets into the big-volume class. Quite often a rule of thumb must be re-tailored to fit an individual situation. Here is a report of the problems and challenges which were presented to one firm and how they devised a system that met all requirements.

By JAMES I. McFAUL
Controller, McMillan Mortgage Company, Los Angeles

pre-punched coupon stubs which accompany them. For such situations, the cashier is supplied with a complete set of odd-payment cards, one for each account, which are pre-punched with loan number and name. These are full-sized punch cards with areas designated for handwritten entries.

The cashier enters the payment amount and codes the transaction on the face of the proper card and sends it to the IBM department in place of the payment stub. There the handwritten information is key-punched into the card.

In the IBM department, the regular payment stubs are fed into the reproducing punch, which produces a finder card to pull the next scheduled payment card from the pre-punched, pre-scheduled payment file.

This file consists of a full calendar year's supply of cards, one for each payment, filed in payment sequence by loan number. These cards contain pre-punched investor number, loan code, loan number, principal and interest total (constant), and breakdowns as to principal and interest, service fee, and due date, and the old and new balances of principal, before and after each payment is made.

Before pulling the pre-scheduled payment cards, the finder cards, which contain total payment amounts, are match-merged with the corresponding balance cards, and the principal and interest constant and surname is reproduced into the finder card from the balance card. The principal and interest constant is then deducted from the total amount received to compute the amount to be deposited to impounds.

The finder cards are now ready to be matched, card for card, with the corresponding pre-scheduled payment cards, and the impound deposit, the surname, and the activity date are reproduced into the pre-scheduled cards.

The odd payment cards are then merged with the pre-scheduled payment cards to create the complete activity deck for the day. This activity deck is match-merged with the balance cards to compute the new impound and principal balances.

From the activity cards, daily cash summaries are prepared to show the amount of principal, net interest, service fee, impounds, late charges, and miscellaneous fees applicable to each investor's account. The net cash amount to be distributed into each investor's trustee bank account is also shown.

Other accounting procedures also have been established. For example, when a new loan is first set up, an odd payment card differentiated by a special color stripe is prepared and sent to the loan closing desk to facilitate the processing of the first loan payment which usually is not a full payment amount.

Another set of cards is maintained, known as the stop payment file. It operates as a stop deck to intercept cash stubs in cases where, for one of a number of reasons, payment should not be accepted. Cash stubs are matched against this deck as a regular daily procedure.

Although the deck of payment cards could serve as a loan ledger, in order to obviate the necessity of retaining a complete payment card file indefinitely, we are posting all daily loan payment receipts to ledger cards by use of an IBM transfer posting machine. This machine uses duplicating fluid to reproduce entries from the daily cash registers, produced in the IBM department, onto individual ledger cards. The register passes through the machine a line at a time. Ledger cards are fed in individually, one per line, and each card receives the impression of a single-line entry from the register.

By doing this, we acquire a readily usable permanent history card, and we are able to dispose of all transaction cards after reports are made to the investor involved. Otherwise, we would be obliged to retain the more than 250,000 transaction cards that would accumulate each year.

Our reports to investors take four principal forms, all of which are produced by the machines. First is the Report of Mortgage Activity, listing present owner, account codes, loan number, date due and date paid, total payment and impound payment, combined principal and interest payment, segregated principal and interest payments, and principal balance. Totals are given at the bottom of the sheet for gross interest, service fee, net interest, principal collection, and net remittance.

In the McMillan process, a single key punch machine takes care of all original card records needed in the mortgage servicing procedures.

Annually, as well as at any time when a new loan is made and set up on a payment schedule, coupon payment books are made up and sent to the mortgagor. Here a set of pre-punched coupon cards is being matched with a machine-prepared statement of the coming year's payment schedule, preparatory to mailing.

After each day's receipts have been balanced in the cashier's office, the coupon stubs received with the payments are sent to the accounting department where they are run through the Reproducing Punch to create finder cards.

The finder cards select the proper cards from this file of pre-punched, pre-scheduled payment cards. Following this, the electronic calculator posts and computes new account balances.

Daily registers are run on the accounting machine, as are a number of periodic and casual reports to investors and other interested parties. Here the day's transactions are recorded, summarized, checked and balanced.

From the daily registers, individual line entries are posted to control ledger cards in this IBM transfer posting machine. Duplicating fluid reproduces a line onto each ledger card.

A second such report is the Schedule of Prepaid Mortgages, also prepared for the investor if requested. Identifications and codes are similar to the Activity Report. This form also lists due dates, prepaid installments (subdivided into interest, principal, and total), and principal balance. Ample space is provided for typewritten "remarks" in a wide right-hand column.

A third investor report is a Schedule of Delinquent Mortgages, which is identical to the Prepaid Schedule with the exception that the prepaid installment columns are here labeled "delinquent installments," and one portion of the remarks column is set up for "date notice of default filed."

The fourth report is a trial balance listing all loans in each investor account and divided into sub-accounts by type of loan, interest rate, etc. These and other reports for the investor can be rendered at any time to suit his desires. A report is chiefly the product of a rearrangement of information already on the cards, and a summarization.

One unusual service rendered from the punched card library of information is the publishing of a notice of insurance expiration. As already noted, an insurance card is punched at the time a new account is set up. In addition to identifying information and codes, this card carries premium amount, policy term, and date of expiration. Three months prior to an expiration, these cards are pulled and the notices printed and mailed to the mortgagors.

Tax Payment Procedure

Tax payment procedures are initiated upon receipt of tax bills. From the bills, tax disbursement cards are punched for each account. A numerical code is also punched into each card to identify the type of tax disbursement, the payee tax collector, and whether or not a veteran's exemption is in effect.

Two separate listings are prepared on the IBM machines from the tax disbursement cards. One is arranged in loan number sequence and indicates the total taxes to be disbursed from each investor bank account. The other lists all loans within each payee taxing authority regardless of investor account.

One check is drawn on a special tax clearing account payable to each tax collector covering all taxes due regardless of investor account. Simultaneously the total amount of all taxes due from each investor's trustee bank account is disbursed into the special tax clearing account. This procedure allows us to reduce the number of tax disbursement checks by many hundreds.

Annual Report Made

After taxes are paid in early December, an annual analysis of accounts is rendered on the accounting equipment. This serves to set up a payment breakdown schedule for the next year, and adjusts impound schedules as needed to cover the anticipated charges. The status of accrued impounds versus accrued liabilities is computed in establishing the new schedules.

The calculator takes into account the tax due date and insurance renewal date and, using the amounts in the tax and insurance cards, computes the necessary accrual for each loan. This accrual is compared with the actual balance to give the shortage or overage.

The calculator then computes the new basic monthly impound payment by dividing the total property tax amount by 12 and dividing the last insurance premium by the number of months it represents. The figures are added to the constant principal and interest payment and rounded up to the nearest dollar to determine the new total payment amount.

This is an annual task, one that must be done after tax bills are received and processed but before new payment books are mailed out. The emphasis is on speed as well as accuracy, and the machines have met the challenge well. An entire group of 16,000 active accounts can be analyzed in this manner in a period of two or three days.

Machine accounting offers other untapped possibilities in providing management with desired information and statistical reports. However, without any additional applications, the equipment we now use has already paid off in saved time and improved service to our investors.

Realty Mortgage Company, Houston, has been purchased by a group of investors headed by **Garth C. Bates.** The investors bought the company from the Latimer Murfee interests.

Mr. Bates, who was formerly executive vice president as well as a stockholder and director of Realty Mortgage, is now president. He is a Houston attorney and a former member of the Texas Legislature from Harris County.

Announcement was also made of

Garth Bates

Perry Russell

the appointment of **Perry Russell,** as executive vice president. Mr. Russell, who was vice president of T. J. Bettes Company, Houston, prior to this appointment, is a member of the Board of Directors of Realty Mortgage and has acquired stock ownership in the company.

New idea in correspondent-investor relationships: Recently Colonial Mortgage Service Company, Upper Darby, Pa., was host to over 150 commercial and savings institution bankers from the Eastern seaboard. The firm is now servicing for these institutions in excess of $180,000,000 of FHA, VA and conventional mortgages. Anxious to have these investors become familiar with their facilities and service, **H. Bruce Thompson,** president, arranged for a visit through the various departments, with brief descriptive lectures by department heads. The tour was followed by a reception for the bankers at a nearby club.

H. F. Philipsborn & Co., Chicago, announces the election of **Lee S. Rosenblatt** as vice president and **Thomas D. Philipsborn** as treasurer. Mr. Rosenblatt joined the Company ten years ago and Mr. Philipsborn has been associated for the past eight years. Both men are in the production side of the business.

» AUSTIN ODYSSEY: Indicative of the expanding ramifications and scope of MBA's activities is the extremely heavy speaking schedule which President John F. Austin, Jr. has kept since last October. More than thirty-five major addresses have been included in this speaking itinerary including talks before the local mortgage bankers associations of Birmingham, Chicago, Philadelphia, Arizona, Southern California, Ohio, St. Louis, New Jersey, Washington, D. C., California, Iowa, Wisconsin, Texas, and Minneapolis-St. Paul.

In addition, he addressed National Homebuilders meeting, Tuscon; Brokers Institute of National Association of Real Estate Boards, St. Louis; Texas Association of Homebuilders, Houston; Dallas Real Estate Board; American Bankers Association, New York; Prefabricated Home Manufacturers Institute, Hot Springs; Texas Savings and Loan League, Houston; Beaumont Rotary Club; Houston Real Estate Board; and the Homebuilders Association Convention, Corpus Christi.

In addition he has addressed all the MBA meetings, including Philadelphia Servicing Clinic, Senior Executives Conference, Dallas; Midwestern Mortgage Conference, Chicago; Southern Mortgage Conference, New Orleans; Eastern Mortgage Conference, New York City; Southwestern Mortgage Clinic, Phoenix; Los Angeles Servicing Clinic, Los Angeles; Southeastern Mortgage Clinic, Miami Beach; and MBA's School of Mortgage Banking at Northwestern University, Chicago; and will address the Stanford University School in August as well as the Kansas City Real Estate Board.

Travelers: MBA Past President Milton T. MacDonald and Mrs. MacDonald of Wilmington, have been touring Europe, as has been MBA Past President John C. Thompson and Mrs. Thompson of Newark.

Also abroad this Spring has been Perry S. Bower of Winnipeg, Canada, combining a trip through the Continent with representation in Europe for the Chamber of Commerce. Also there are Mr. and Mrs. Norman H. Nelson of St. Paul.

PERSONNEL

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Capital MBA a Working Group

One of the more active local mortgage associations is the Metropolitan Washington, D. C. MBA which this year is headed by Francis C. Little. Only in its fourth year, this association has a membership of 44 firms, with 222 individual representatives from these firms included in its membership.

At a recent officers meeting these were present, beginning with Mr. Little, left foreground and clockwise to the right around the table, A. Britton Brown, vice president; Robert McIntosh, secretary; H. Loy Anderson, general counsel; William F. Bergmann, James A. Graham, John C. Holzberg and Frederick X. Wilson, members of board of governors; Martin R. West, Jr., William E. Shannon and George W. DeFranceaux, past presidents; and Roger W. Hatch, treasurer.

Thomas M. Murphy North Calif. Head

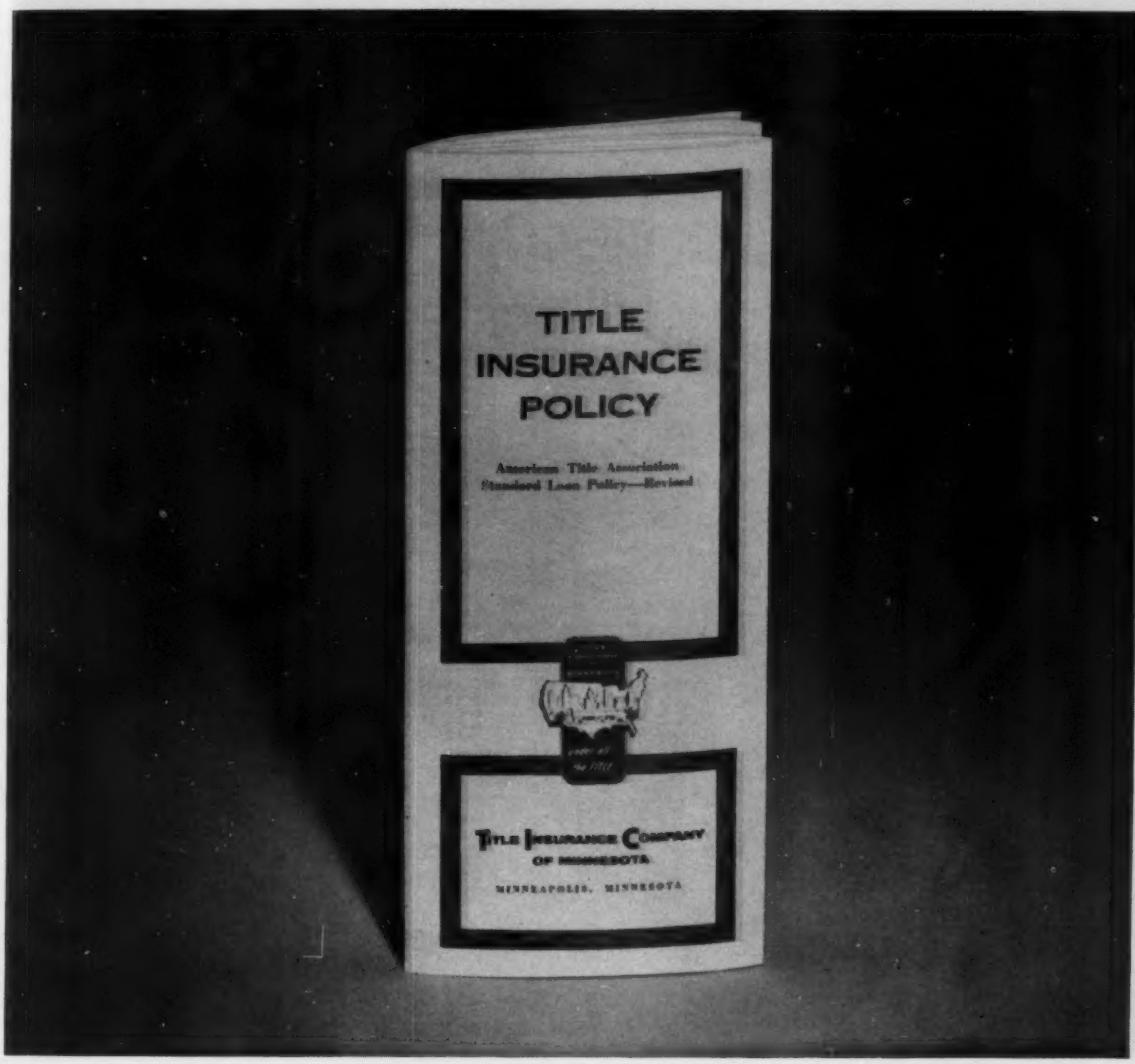
Thomas M. Murphy, assistant cashier and assistant secretary of American Trust Company, San Francisco, was elected president of Northern California MBA.

Other officers chosen to lead the group for the coming year are Earle V. Taylor, assistant vice president, Crocker-Anglo National Bank, vice president; A. G. Cummings, vice president and secretary, E. S. Merriman & Sons, secretary; and Henry F. Trione, president, Sonoma Mortgage Company, treasurer.

At the same time, the following men were elected to the board of directors: Lloyd H. Brinck, assistant vice president, Wells Fargo Bank; Willis R. Bryant, vice president, American Trust Company; Eugene S. Cox, district manager, Pacific Mutual Life Insurance Company; Frank E. Hayward, manager, Loan Department, Coldwell Banker & Company; Silas O. Payne, vice president and legal adviser, Marble Mortgage Company; Linden L. D. Stark, vice president, Crocker-Anglo National Bank; Max E. Weyer, vice president, Mechanics Bank of Richmond; and Kirk Whitehead, president, Western City Mortgage Company.

A member of the association for the past 14 years, Murphy has long been associated with American Trust and has served in the real estate department at the head office in San Francisco since 1943. He is a native San Franciscan who was graduated from St. Ignatius University (now the University of San Francisco).

Edward K. Jones, executive vice president, Weaver Bros., Washington, D. C., has been elected a director of the National Savings & Trust Co. . . . **Martin West, Jr.** and **Clarence Dodge, Jr.,** both vice presidents of the same firm, have been named directors of the Interstate Building Association.



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